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The Business Outlook

By ROGER W. BABSON

Mr. Babson predicts 1948 will be year of war preparation similar to 1938-40. Doubts effective measures will be taken to curb inflation, since motives of self-interest predominate over national welfare. Says economic distress seems necessary to bring people to their senses.

In addition to my formal Forecasts which were in this newspaper last week, I now want to add something for readers to think over.

As heretofore stated, 1948 will be much like 1947—at least up to Nov. 2. With most manufacturing companies enjoying large unfilled orders, there can be no depression in 1948. There, however, will be an increase in war preparations. This will mean the shifting of employment and credits from one industry to another. For instance, we may expect some slackening in industries devoted wholly to unessential peace work. Industries which were booming during World War II, such as aircraft manufacturing, machine tools and shipbuilding, should pick up again during 1948.

(Continued on page 31)



Roger Babson



Elisha M. Friedman

Others, but not we, have shot and hanged their opposition leaders. Our policy has been "live and let live." We seek peace and pursue it. And we are strong—the strongest peace-loving power on earth. We must be ready to back our demands for peace.

The international situation has deteriorated since hostilities ceased. The UN is struggling to become effective. Its charter provides for an international police force. Until that comes into being, the United States should not disarm. The Universal Military Training Act is essential to our self-preservation. President Truman has urged its speedy enactment.

(Continued on page 28)

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President's "Economic Report" Renews Plea for Inflation Curbs

In lengthy document he appeals again for his 10 point anti-inflation program. Foresees another year of splendid achievement, but warns if inflation is allowed to run its course "it will break with destructive force." Defends his taxes revision proposal.

In a 35,000 word document, the President on Jan. 14 presented his annual "Economic Report" to Congress, which is reputably based on studies of the Council of Economic Advisers, created by Congress under the Full Employment Act.

In his report, the President forecast "another year of

splendid achievement," but warned that inflationary trends must be curbed. "As we enter the new year," he said, "the American people are keenly aware that inflation is the dominant problem in our economic affairs. When an inflation is in progress, there is no way of predicting when it will break of its own accord. One can only be certain that, if permitted

President's budget message appears on Page 6.

to run its own course, it will break with destructive force." "I therefore urge," the report continues, "that the Congress consider with the utmost speed the nature of the problem which we have to meet

(Continued on page 39)



President Truman

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GENEVA, SWITZERLAND**Prices—Profits—Productivity—Three Peas in a Pod**By ROBERT G. DUNLOP*
President, Sun Oil Company

Asserting confusion regarding prices, profits and production is due to collectivist propaganda to restore wartime controls, Mr. Dunlop maintains freely functioning prices are very essence of American competitive enterprise, controlling at same time production volume, investment trends and demand for workers. Cites oil industry as demonstrating increased production arises from price increases and says corporate profits are exaggerated, and without adequate profit incentive industry is throttled.

For several years there has been in progress in this country an insidious campaign to distort the truth and mislead the mass of people regarding such vital factors in our economic life as prices, profits and productivity. Accordingly, I would direct your thinking to



Robert G. Dunlop

a consideration of these most important factors in our economic system: Prices—Profits—Productivity—Three Peas in a Pod. Every media of communication and every device has been used to disseminate what amounts to economic distortion regarding these three vital elements of our economic life. So neatly do the pieces fit that one is led to believe the distortions are parts of a carefully designed plan of collectivists that has as its objec-

*An address by Mr. Dunlop before the Rotary Club, Philadelphia Pa., Jan. 7, 1948.

tive the breaking down of competitive enterprise.

Months before V-J Day a gigantic propaganda campaign was launched to perpetuate in peacetime the wartime controls imposed on prices. The myth was projected that high prices caused inflation, whereas even the most casual examination of the inflationary forces at work in this country revealed they had their origin in the fallacious monetary and fiscal policies pursued during the previous 14 years.

As all of us know, our money as merely a common measure of values by which one good or service can instantly be compared for purposes of exchange with any other good or service, and this value thus expressed in terms of money, is *price*. Accordingly, as money becomes plentiful or excessive as related to the production of goods and services, more money is required to buy the available goods and services. The resultant

development is, more correctly, debased or lower valued money, not high prices. Some of you, I know, will question that statement. But pause. Your own productive effort today in terms of the goods and services you consume and enjoy is the equal of or greater than the past. There is relatively little difference in the value of the shoemaker's shoes for exchange purposes for a suit of clothing. The automobile worker's productivity still has substantially equal exchange value for the home his fellow-workman builds for him. Basically, it is not our productivity which has materially changed in value, but our money.

Financing of the war by borrowing created a purchasing power far in excess of the production of consumer goods. It was inevitable that the result would be an unsatisfied demand for consumer goods that would push prices up. (Continued on page 30)

**Current Replacement Costs
And Corporate Earnings**By W. H. GARBADe
Assistant Treasurer, Shell Oil Co., Inc.

Defending high business earnings as necessary to support America's world position in full enterprise. Mr. Garbade asserts present earnings are largely fictitious. Says capital expenditures are unprecedented and are depleting cash resources. Contends, despite current high earnings, they do not reflect increased replacement costs, and concludes a correction of the price level is not only unlikely but highly undesirable.

Few subjects are currently commanding more interest in business circles than the problem of accounting for replacement costs. The question has been discussed in considerable detail in many recently published articles. It was thoroughly aired at a recent



W. H. Garbade

meeting of petroleum industry representatives, and it is doubtless prominent in minds of management in every major industry.

As is inevitable with such controversial topics, all the discussions have been marked by fairly general disagreement.

Few authorities in any field agree on the best method of reflecting increasing replacement costs in financial reports. And experts in accounting and other professions are choosing sides for another clash in the "battle of the footnotes."

Probably the one obvious conclusion to be drawn from all that

has been said and written so far is that there is no simple cure-all for the problem. Every solution that has been proposed appears to fail in one way or another, depending on the individual case. In discussing the subject, then, it seems reasonable to sketch in the background against which the main problem revolves. In this way, perhaps, we can highlight the basic issues confronting management as it seeks to formulate a sound approach for individual companies.

Earnings Exaggerated

The first factor to be considered is that earnings in America, expressed in dollars, are at an all time high—as shown in Chart No. 1. Furthermore, corporate management finds itself in the embarrassing position of explaining, defending or even apologizing for its income. Obviously, if earnings were accurate gauges of corporate efficiency, management should

take full credit instead of presenting alibis. For high earnings are absolutely necessary to support America's position in a world at peace, and they are just as indispensable to the revitalizing of private enterprise.

Unfortunately, however, management can take little credit for today's earnings, because they are largely fictitious. According to the Department of Commerce, corporate earnings in 1946 totaled \$12.2 billion, of which inventory profits accounted for 38%. Add to this the distortion and exaggeration in profits caused by the use of prewar facilities in a post-war price structure and you see that profits quickly approach modest levels.

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The National Economic Outlook

By MORRIS NATELSON*

Head of Industrial Department, Lehman Brothers

Although asserting favorable factors in the immediate outlook overbalance unfavorable ones, Mr. Natelson sees as casting shadow on rosy present: (1) fear for stability of the price level; and (2) shortage of new capital. Says corporate profits are inadequate to attract new capital and as result "we will be faced with a long-term decline in our standard of living." Sees immediate need of \$20 billions for new plant investment to maintain and expand productive capacity, and does not foresee further government action to alleviate upward price pressure.

"The National Economic Outlook" is a very broad subject and the time allotted to me very short. I hope you won't mind if I confine my remarks to a discussion of the favorable and unfavorable aspects of the present economic picture and guess at the probable course of economic events during 1948.

Generally speaking, the national economic picture right now is very favorable.

Industrial production is at capacity of our industrial plant; if anything, it has been limited by availability of raw materials and manpower, even though production of raw materials exceeds the peaks established during the war period, and employment is at an all-time high.

Demand has kept pace with production, or to state it in its proper relationship, demand has forced peak production.

Some increase in inventory has taken place during the past year, but much of it has been in heavy goods which were understocked a year ago.

The number employed at present is actually greater than our natural labor force. There are people working, attracted by high wages, who normally would not be interested in employment.

Because of full employment at high wages, total income to individuals has been reaching new high levels, even after deducting present high taxes.

Liquid assets in the hands of individuals have been increasing steadily and at the end of 1947 totaled almost \$160 billion. What is even more important is its distribution. Last year about 65% of families spent less than their income. In appraising these figures consideration must be given to the increasing average age of our population and the large number of retired persons who live on capital accumulation.

Prices of manufactured goods and even food, except for certain items in short supply, are in line with costs of production and, even more important, with family income.

All these favorable factors would indicate that we are not sitting on a trapdoor over a toboggan slide, which is likely to open at any moment and plunge us into a postwar depression. It has been assumed that prices are at a precarious level and that extremely sharp drops from current price levels are in the near offing after a sharp inflationary bulge.

There does not appear to be any such danger, at least from current data. Even should exports decline to a balance with imports, it would have little effect on our domestic

*An address by Mr. Natelson before the National Retail Dry Goods Association Convention, New York City, Jan. 13, 1948.

(Continued on page 38)

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Economics and Morals of Inflation

By HON. RALPH E. FLANDERS*
U. S. Senator from Vermont

Asserting generating force of present price rises is the circular chase after each other of wages and prices, Sen. Flanders says problem can be attacked by reducing money supply and increasing production, or by applying brakes directly to rapid movement of prices, wages and resulting profits. Warns against taking severe deflationary measures, and holds direct measures can be effectively applied only slowly. Sees most practical solution in self-discipline of both labor and management. Favors meat rationing and stresses application of moral factors in curbing inflation.

It is an old assumption that economics is a science. As a science it is supposed to deal with causes and effects which are outside the realm of morals in the same way that the boiling of water at sea level at 212° Fahrenheit is outside the realm of morals. It is clear, of course, that the social sciences to which economics belong are not quite so impersonal as are the physical sciences which concern themselves with the boiling of water. Yet there has been a continuous and laudable endeavor on the part of the social scientists, as represented by the economists, to broaden the impersonal objective elements of their subject to the fullest extent possible.

Another assumption with regard to many economic subjects has not been made by the scientists so much as it has been made by people in general. This assumption is that practically any economic disorder can be cured by governmental action. It is assumed that the passing of laws, the setting up of administrative organizations and the adoption of administrative policies can be applied to practically any economic disorder so that it will be eliminated or brought under control.

Both of these assumptions need to be examined in the light of any particular situation to which they may be applied. The particular situation which we have in mind this evening is the uncontrolled inflation which we are now enduring or enjoying as the case may be. We may venture with some confidence to assert that its control lies fully as much within the realm of morals as it does of social science. We furthermore must conclude, after examining the matter, that the control of inflation lies to a determining degree in the hands of individuals and organized groups of individ-



Ralph E. Flanders

uals and that, without their cooperation, governmental action is of small or slow effect.

To sum it up, we are this evening defending the belief that moral issues to as great a degree as economic considerations or government action will determine the course of the inflationary drive in which we find ourselves enmeshed.

The every-day citizen sees an inflation in terms of continuously rising prices for everything he or she has to buy. To keep up with this rising trend the citizen endeavors to increase the family or personal income. This endeavor to match income against expenses meets with some success for certain groups. They manage actually to improve their standard of living in the process, while another very large group indeed gets left behind with either a fixed income or one which it is unable to increase sufficiently. As a result the continued advance of inflation results in growing discouragement and actual distress.

The well organized, well paid, wage earning groups who spearhead the demands for increased wages fare best. The pensioners, those living on retirement allowances and on the painfully acquired savings of a lifetime suffer most. Their position is indeed hopeless except as the tide of inflation is arrested and rolled back, if that be possible. Similar to their fate is that of large groups of low paid wage and salary earners who have not succeeded in keeping up with the price advances. This group includes many government employees, school teachers, many white collar workers, those in intra-state service occupations and millions of others.

The undesirability of a rapidly moving inflation should be clear. It is not necessary to spend time in cataloging the personal and social ills which result from it.

Nature of Inflation

The nature of inflation is also clear. It results from an increase of purchasing power which does not meet a corresponding increase in the volume of goods and services.

*An address by Sen. Flanders before the Alumni Association of St. Louis University, School of Commerce and Finance, St. Louis, Mo., Jan. 9, 1948.

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Price Making In a Democracy

By SAUL COHN*
President, City Stores Co.

Commenting on confusion regarding price making elements, Mr. Cohn lays blame partly on high and hidden taxes, subsidies, and price maintenance laws which arrest production—"the dynamic flywheel of a democracy." Holds acts of producers also responsible, and says there should be greater cooperation between producers and distributors. Urges more efficiency in distribution, based upon a free market.

The two big issues that confront us in 1948, and which have always been great undercurrents of influence in our lives, are peace and prices. And while the two are interwoven, I shall confine myself, in the main, to the matter of prices. But price-making today is more complex than ever. To

see this clearly we must divide price-making into its component parts.

Broadly speaking, every price contains two major elements: The tangible and the intangible.

The tangible is the yard of cloth represented, with its subsequent effect upon production, that tax structure is a failure. Ours is a dynamic economy based not only upon freedom of spirit, but on a satisfaction of needs and desires.

Taxes which arrest production are an interference with the dynamic flywheel of a democracy; an arrest of consumption is an arrest of production. For example, see the effect of one phase of the tax structure as it appeared when published by a leading New York newspaper on Jan. 11, 1941:

Hidden Taxes Paid With Purchases of Goods

	Number of Different Taxes
Pair of shoes	126
Quart of milk	78
Overalls	148
Fence	191
Plow	142
Cake of soap	164
Gallon of gasoline	201

It is needless to point out the cumulative effect of excise and consumption taxes, as well as taxes in general. These are purchase taxes which are all a part of prices, but in many instances they are not only this, but a foundation for profit on taxes. They seriously impair the national income and reduce the job opportunities available.

Subsidies—But if some of these taxes can be defended on the basis that they are a legitimate source of government revenue, on what basis can be defended the artificial support given to prices through government subsidies, such as tariffs, farm prices and numerous others?

Our subsidies and sanctioned monopolies and exemptions make but a trapeze of our commercial system, on which the various lobbies engage in a good deal of acrobatics, but with a balance that tips in their favor at the expense of the consumer. We, as retailers, have never fully understood the effect of these tactics upon the economy and have therefore neglected to make our influence properly felt, nor effectively joined our forces with the consumer in the safeguard of his interests.

Price Maintenance Laws—And as if these were not enough, we have a long list of market legislation such as the Miller-Tydings, Robinson-Patman and numerous other state laws, which affect the free movement of goods into the market, producing a rigidity and inflexibility of price, notable among which are the Price Maintenance Laws.

Acts of Producers

Add to this the various methods by which cartels and monopolies have further managed to impose upon production administered prices and other kinds of contraptions, all calculated to increase the price of goods, and you begin to have some idea of how the freedom of the market is being destroyed.

As an example, only recently the head of one of our stores (a business which does over \$20,000,000) was asked "how many items and lines in your store are controlled by the manufacturers; i.e. how many items are you re-

(Continued on page 38)

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The State of Trade and Industry

Steel Production
Electric Output
Carloadings
Retail Trade
Commodity Price Index
Food Price Index
Auto Production
Business Failures

Total industrial production last week held at the high levels of preceding weeks, notwithstanding the fact that a number of factories were closed for the New Year's Day holiday. Turning the day to good advantage some producers availed themselves of the opportunity to repair plant equipment.

Reports coming to hand state that many manufacturers find themselves confronted with a considerable volume of new orders, while order backlogs continue to run very large in many lines.

For the weekly period ended January 7th, last, production of foodstuffs showed a moderate increase, butter output rising about 5% to 16,600,000 pounds from 15,800,000 pounds. Activity at slaughter houses was reported as considerable with meat output placed at 276,400,000 pounds against 247,800,000 in the previous week, or an increase of about 12%.

Automobile production rose sharply last week to its pre-holiday peak. According to Ward's Automotive Reports, nearly all producers were at or above December levels for the period, except for those which put in overtime last month to boost 1947 totals. Continued improvement is looked for in truck production this week.

Output during January, the agency said, will be down somewhat from the December level, with preliminary computations listing 325,000 cars and 100,000 trucks to be made in this country, along with 10,500 autos and 6,300 trucks in Canada. The decline was attributed to material shortages, induced by some manufacturers who depleted their stocks to reach 1947 goals.

While the dollar volume of consumer buying last week was moderately above the levels of both the preceding week and the corresponding week a year ago, unit volume was somewhat below that of a year ago. Clearance and promotional sales were frequent and aided in stimulating interest in many types of goods. Seasonal mark-downs were neither as large nor as widespread as they were a year ago, but what bargains were offered were eagerly sought by consumers.

A large number of buyers arrived in the wholesale centers and as a consequence, wholesale volume rose well above the level of the previous week and moderately exceeded that of a year ago. Reorders for most types of merchandise were very large with deliveries prompt in most areas.

Touching upon civilian expenditures and liquid assets, the January number of the "Business Bulletin" of the Cleveland Trust Company, points out that while the ratio of the public's consumption expenditures to its holding of liquid assets shows a steady increase in the past two years, it still remains about one-third lower than in 1940 and 1941.

Thus, it adds, purchasing power in the form of liquid assets is comparatively high in relation to the present rate of spending which means a relatively large reserve which could be used to supplement current income, if necessary, to maintain the level of spending.

It should be borne in mind, however, the "Bulletin" states, that this applies to consumers as a whole, and would not be true in a good many individual cases where liquid assets have already been substantially reduced.

Continuing, it notes that individuals' holdings of liquid assets totaled \$46,000,000,000 at the close of 1939, while personal consumption expenditures in the final quarter of 1939 were at an annual rate of \$69,000,000,000. All through the war, the "Bulletin" states, liquid assets increased more rapidly than consumption expenditures due to money income advancing faster than the supply of civilian goods, so that the public put a substantial part of its earnings into government bonds and other savings.

However, since 1945, the "Bulletin" concludes, expenditures have increased faster than liquid assets, with individuals' holdings of such assets now probably close to \$160,000,000,000, and the annual rate of personal consumption expenditures placed at \$166,000,000,000 in the third quarter of 1947.

On Friday of last week the Federal Reserve System undertook another step in its effort to curb credit expansion by increasing the rediscount rate or interest rate which member banks pay to borrow from the Reserve Banks to 1 1/4% from 1%.

The Federal Reserve Bank here in New York initiated the move which was rapidly put into effect at Chicago, Philadelphia, Cleveland, Richmond, Atlanta, St. Louis, Minneapolis and Dallas. Three other banks which will undoubtedly take similar action in the near future are San Francisco, Kansas City and Boston. Two weeks ago the Federal Reserve System reduced the price levels at which it had been supporting United States Government bonds.

The rise in the rediscount rate will have the effect of increasing the cost of business borrowing, since past performance has shown that such advances in the rediscount rate have within a short time

(Continued on page 31)

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January 6, 1948

Observations . . .

By A. WILFRED MAY

CAN THE VOTER RECOGNIZE ATTEMPTED BRIBERY?

Apparently President Truman is confident he cannot!

In any event, it seems to this writer that the most important connotation of the Chief Executive's tax "plan" propounded in his message on the State of the Union, is the public's reaction to it. For it a large proportion of the body politic becomes won over by this blatant bribe, thinly camouflaged in "economics" lingo, doubt must be accentuated over the electorate's having the self-discipline to see through any level of demagoguery in future.

All the more alarming for the cause of our democratic processes is the fact that our incumbent President is no arch-villain, and that this latest gesture at a voters' bonus can be cynically shrugged off as a forced and rather clever Election Year maneuver by a rather kindly and well-meaning officeholder who merely has the human desire to get himself retained in office.

If the voter can turn a deaf ear to that \$40-multiple siren song and look to the realities, our faith in our democracy can be maintained. For then we can have confidence that he will repel similar future brazen attempts to mislead the public by complete distortion of the inflation process and bandying-about of other economic concepts, for political aggrandizement.

It is vital to our democracy's future whether the man-in-the-street voter can be expected to turn a deaf ear to such a \$40-per-head bonus; whether he can at least remember that twice within the past six months the same President insisted on vetoing tax reduction on the grounds that it would be inflationary, stating it should in any event await over-all revision of the entire tax structure.

Can the lay voter realize that President Truman, together with his economists and legislative leaders, is at the same time contrarily proposing the curtailment of consumer credit facilities to the same small spender, because of the inflating effect which such buying power generates?

And can the listener to the President's message remember that scarcely ten minutes before he broached his tax bonanza to be divested from "the corporations," he set forth the need for industry's \$50 billion expansion of facilities?

Presumably it does not take esoteric economic insight to realize that stripping business of its reserves will directly prevent such expansion; or at best must force the very over-inflation of bank lending against which the President and his lieutenants themselves have been warning. Such credit expansion will be required even to support our present volume of activity. Nor should it be so difficult to recognize the great boon to inflation resulting from the transfer of \$3 1/4 billions of corporate savings to the \$40-a-head consumers; or the boost to prices arising from the passing-on of increased tax costs.

Profit Delusions

Probably it is a bit harder to discern the fallacies in the President's glib statement that corporations "can well afford to carry a larger share of the tax load." Nevertheless, it should be realized that the investment in the average business corporation, even when figured on a prewar cost basis, is now about 40% higher than then. A 40% increase in net profits would be required even if the price level had not doubled. Hence, even if industry had been earning a normal return in the 1930's (which it was not), profits should now be double or triple those of the earlier period.

Keeping the Cart Behind the Horse

Mere simple principles of good housekeeping should reveal the logic of first taking into account the amount available for a year's spending before totaling the prospective expenditures. Similarly, the government should first impose a reasonable tax bill, and then make its appropriations accordingly. It is always easy to find ways of appropriating available funds, no matter how large they may be.

It is extremely important to realize, in this connection, that general tax reduction at this time would not represent some windfall, but rather a cutting down of the wartime and long-term increases. With double taxation of corporate dividends, with individual incomes being taxed at 50% in the \$18,000 bracket, with tax collections quadruple the prewar amount, with our taxes as a percentage of national income greater than Communist Russia's prewar rate, with the nation's large income sources and estates already effectively redistributed; the reduction of taxes along with government expenditures to some semblance of normalcy must be regarded as indispensable to a free society rather than as a gift.

* * *

To represent the \$40-bonus as a settlement of this broad problem is a sad joke. Incidentally, Rocky Graziano, middleweight champion, was banned from New York State boxing merely for failing to turn on a bribe offerer.

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\$40 Billion Budget Asked by Truman

President transmits to Congress budget message for Fiscal Year 1949, asking for highest peacetime appropriations in U. S. history. Receipts forecast as approximately \$44½ billions and expenditures, including proposed costs of Marshall Plan, placed at \$39,669,000,000. Wants surplus used for debt reduction.

On Jan. 12, President Harry S. Truman submitted to Congress the Administration's budget estimates for the fiscal year beginning July 1, 1948. The budget expenditures, which includes \$7 billion for "international affairs and finance" (covering in large part proposed outlays under the Marshall Plan) was estimated at \$39,669,000,000. An estimated surplus of approximately \$5 billion, the President proposed should be used for debt redemption, and nothing was offered in the way of tax reductions.

The text of the introductory portion of the President's budget message follows:



President Truman

To the Congress of the United States:

I am transmitting my recommendation for the Budget of the United States for the fiscal year ending June 30, 1949, together with revised estimates for the fiscal year 1948. This Budget includes estimates to carry out both existing laws and proposed legislation.

The realities of our existing international and domestic requirements account of the size of this Budget. It affords essential support to the foreign policy of the United States by encouraging widespread international economic cooperation while maintaining our armed strength. It

affords essential support to our domestic policies by advancing the development of human and material resources within a fiscal plan designed to help combat inflation.

The expenditures of the Federal Government are still inescapably dominated by the war and its aftermath. In the fiscal year 1949, 79% of our expenditures directly reflect the costs of war, the effects of war, and our efforts to prevent a future war: National Defense—International Affairs—Veterans' Benefits—Interest on the Public Debt—Tax Refunds.

This should be a sobering thought to all of us as we strive for the creation of lasting peace among the nations of the world.

Only 21% of our expenditures finance the government's programs in the broad areas of: Social Welfare—Housing—Education—Research—Agriculture—Natural Resources—Transportation—Finance—Commerce—Industry—Labor—General Administration.

In the two years since the surrender of the Axis Powers, expenditures of the Federal Government have decreased sharply from \$63.7 billion in the fiscal year 1946, to \$42.5 billion in the fiscal year 1947, and an estimated \$37.7 billion in the current fiscal year. Were the budget for the fiscal year 1949 to be confined solely to carrying out existing laws, there would be a further decrease to slightly below \$34 billion.

It would be gratifying if I could say to the American people and to their Senators and Representatives in the Congress that our existing programs fulfill our national requirements. But this is not the case. Our national and international responsibilities demand that we undertake new activities and expand some activities in which we are already engaged.

Expenditures of \$5.7 billion will therefore be required for the fiscal year 1949 to finance programs under proposed legislation. Of this, \$4.4 billion is needed for our aid to the European Recovery Program and for aid to other countries, including China. Most of the remainder is for the development of our human and material resources through universal training, aid to education, expansion of social security, health insurance, housing, and scientific research.

Thus the Budget for the fiscal year 1949 calls for total expenditures of \$39.7 billion. Receipts during this period are estimated under existing tax laws at \$44.5 billion. This will balance the Budget and provide \$4.8 billion which should be used to reduce the public debt.

For the current fiscal year, 1948, the revised estimates included in

(Continued on page 34)

From Washington Ahead of the News

By CARLISLE BARGERON

When the subversive runners-down of Congress got so bad a few years ago as to stage a "bundles for Congress" campaign, the reaction became so strong that they let up, and of recent, I have not been able to see anything of an organized attack upon that body. This is all to the good and I think we should keep in mind that the highly organized attack was more or less stimulated by the late Roosevelt the Great. Be it said to the credit of Harry Truman, that while he and the legislative body seem to be always at odds, he has never sought to lower the prestige of that body.

He expresses himself and lets the legislative body do what it will. Notwithstanding that there has been this change, our jesters, cartoonists and editorial pundits are still occasionally poking ridicule at the Senatorial and Congressional type. One of the most widely syndicated comic strip artists in the country, in fact, is having trouble with his newspaper clients because of his insistence upon putting propaganda against Congress in his strips. It is doubtful if the successful young man in question has ever seen a Congressman, knows that there is a Senate and a House, that there are three branches of Government. He has simply become prominent and made plenty of money as an entertainer and like the ham actor who always yearns to play Shakespearean roles, he now wants to be an "influence" on public affairs.

There is another cartoonist, a daily one panel fellow, however, who at least three times a week, has as the brunt of his humor, a pot-bellied figure whom he calls Senator Snodgrass. The impression is that this fellow is just being funny, because his characters are funny, without trying to play a cause. There is no doubt, either, that he depicts some real pontifical characters, some real humbugs.

Yet some of the hardest working men, some of the most sincere, I have ever known, are members of Congress. I would not work as some of them do for \$100,000 a year, particularly in these days when the Government takes away so much in taxes.

Two members come readily to mind and I could think of a hundred more. I doubt that either Congressmen Dick Wigglesworth of Massachusetts, or Carl Stefan of Nebraska, has ever been home for dinner—when Congress is in session—before 7 o'clock. They are both members of the Appropriations Committee, both chairmen of sub-committees.

Wigglesworth has to handle the



Carlisle Bargeron

appropriation requests of the independent agencies such as the Veterans' Bureau, the Maritime Commission, the RFC et al. They account for billions of dollars of the Government spending, the Veterans' Bureau in the current fiscal year accounting for more than \$7 billions alone. He has to handle the deficiency estimates which every agency, regardless of how much is originally appropriated, seemingly comes in for before the year is out.

Although a wealthy New Englander and living in Washington's fashionable Georgetown section, it is doubtful if he knows more than occasionally what it is, to sit down for dinner with guests at eight. He lives in his brief case, fretting to every one who will listen to him about the squandering of the Bureaucrats.

His savings to the American people in the current fiscal year would run around \$2 billions because of the way in which he pruned the Bureaucrats' requests. But he never gets any praise for this. The only time you are likely to see his name in the papers is when an aggrieved Bureaucrat has squealed or some misguided editor is referring to him as a penny pincher.

The same is pretty much true of Stefan, an entirely different type, who has charge of the State, Commerce, Judiciary and Justice Department appropriation bills. The latter two are not much of a problem. But State and Commerce have in recent years become a tremendous racket of spending.

To read the reports of the closed hearings which are held on the State Department demands, would make any decent citizen sick. The department is still honeycombed with Communists and the present loyalty hunt is not weeding any appreciable number of them out.

We are having what is called a cold war with Russia, so the State Department spenders—including General Marshall—are running high, wide and handsome. Stefan's job is to keep this horde of spenders within reasonable bounds and all he gets for his efforts is abuse.

He is abused for not willy nilly approving funds for the Civil Aeronautics Administration which is under the jurisdiction of Commerce. Only recently he came across the fact that CAA owned and operated several hundred planes of its own with which its "inspectors" were supposed to ride the airways and see if the beacons and other navigational aids were operating properly, and it was developed that the CAA inspectors actually did make occasional flights but most of the time, the planes rusted in the hangars. By making the CAA do away with this luxury service and use the regular airways for inspection he saved the taxpayers millions of dollars. He could play ball with the bureaucrats, of course, and have the use of a couple of planes of his own. But he doesn't.

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Britain's Wasted Exports

By PAUL EINZIG

Dr. Einzig contends Britain's repayment of wartime sterling balances has been excessive, and unless British Government ceases being magnanimous in its funding agreement terms, there is no hope for restoring equilibrium in balance of payments, and further American assistance to Britain "would go down the drain."

LONDON, ENGLAND—At a time when Britain needs every cent she can earn through exports, hundreds of millions of pounds are wasted through her Government's irresponsibly extravagant attitude in the matter of wartime sterling balances. Everybody realizes that Britain

cannot afford to continue to act as Santa Claus. Prominent members of the Government repeatedly declare that unrequited exports must stop, but have done practically nothing to follow up their words by action. It seems that nothing

short of a stern American reminder of the duty of a debtor not to discriminate in his treatment of his creditors could bring the Government to its senses and save the British people from the disastrous consequences of its own Government's folly.

Since the cessation of hostilities, Britain repaid wartime sterling balances running into hundreds of millions of pounds, partly by converting them into dollars, but mainly by exporting goods to the creditor countries in excess of her imports from those countries. At present the total sterling balances owned by overseas holders is around £3½ billions, half of which is still unfunded. This means that, in theory at any rate, there is nothing to prevent overseas holders of sterling balances from buying up in Britain goods to a total value of £1¾ billions without paying for it in any form which would enable Britain to pay for her own imports. In practice a large part of this amount is held by British Colonies and is therefore controlled largely from London, and further large amounts are held by British Dominions which voluntarily refrain from embarrassing Britain by drawing on their balances to an unduly large degree. Even allowing for this, purchasing power amounting to several hundreds of millions of pounds is liable to be let loose on the British market, and is liable to absorb a very large proportion of Britain's exportable surplus of goods.

About half of the sterling balances have been funded, and cannot be so used to an unlimited extent. Under the various funding agreements, however, the Government released far too large

amounts both for conversion into dollars and for spending on British goods. The new agreement with Egypt is the latest in the series of quixotically generous agreements. Under it Britain will supply Egypt with gold and dollars to a value of \$29 millions and with unrequited exports to a value of £32 millions (\$128 millions) during 1948. These payments will reduce the total of Egyptian sterling balances to about £300 millions, compared with its original amount of £440 millions. If the funding agreement with India, which has also expired, should be renewed on equally generous terms, it would greatly accelerate the pace at which the British gold reserve is used up in this year, partly through direct conversions and partly through unrequited exports which reduce Britain's capacity to export to hard currency countries.

The magnanimity of the terms of these funding agreements, and the liberality with which Britain allows unfunded balances to be used, can only be explained on the ground of the psychology of the "new poor" who has not yet realized that he can no longer afford to live in the old style, and cannot resist giving money away even though every penny he gives to others has to be borrowed from somebody.

Unless and until the British Government is brought to its senses and is made to face the realities of Britain's situation, there is no hope for restoring anything like equilibrium in the balance of payments. So long as a high proportion of British exports serve the purpose of war debt repayment any further American assistance to Britain would simply go down the drain. The United States, having waived their claim for war debt repayment, and having lent Britain since the war \$3¾ billions, would have every moral right to protest against the folly of a policy which nullifies the results gained from stopping the import of American films and tobacco. Washington should try to make London realize that the repayment of old sterling balances on the present scale, besides being contrary to the spirit of the Loan Agreement, is contrary to the best interests of world reconstruction, since it endangers Britain's own reconstruction.

*An address by Under-Secretary Dodd before the National Council of Farmer Cooperatives, Chicago, Ill., Jan. 6, 1948.

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Which Way Do We Go Now?

By N. E. DODD*

Under-Secretary of Agriculture

Agricultural Department official warns, despite large production and general high prices, producers of some commodities are in trouble and some serious problems in 1948 must be faced. Warns of excessive farm land values and rising scale of farm mortgages, and says Marshall Plan will involve considerable sacrifice, while not helping many farmers. Says Republican measures against inflation are inadequate and points out need for long range agricultural program based on maintenance of high domestic consumption and a policy of abundance. Defends price parity concept.

It's exceptionally pleasant to make a speech during the New Year season. This is the season when you take stock and look ahead to future plans. The old year is over and done. Its record—both of successes and failures—is completed. The feeling of the season is al-

most as though you were starting off with a clean sheet; as though the new record can be whatever you choose to make it.

I wish the new year could have been born into a more comfortable world. But, unfortunately, these are troubled times. The world is hungry and restless and confused. There may be increasing hunger and suffering in many countries as this winter progresses. Political turmoil is slowing down recovery in much of Europe. As those people welcome 1948, and consider what it may bring, their chief hope lies in the United States.

Today, the second regular session of the 80th Congress is convening in Washington. The issues before it are grave. The people of Europe received a great holiday message of encouragement in President Truman's proposal for long-range aid and in the interim aid voted by Congress just before its adjournment. Whether or not their hope is justified depends to a considerable extent upon the action taken by this country during 1948.

Mixed Signs in Agriculture

As we look at the prospects for agriculture for the new year, we see mixed signs. Farm prices and income are generally high. Net farm income in the year which we have just completed was about one-fifth higher than 1946. Production is running high. In spite of the bad weather last year our total crop production was near the average of the best five years in our history and only 5% below the 1946 record. Farmers have paid off a lot of debts and many of them are in better financial shape than they have known for

years. All those things are to the of that campaign are trying to tie their selfish ends to the program of the party in power in Congress. They hope to thus ride their destructive legislation through in the confusion which characterizes a heavy legislative year.

But if I know you, and the groups which are allied with you, this campaign doesn't have a chance.

On Dec. 11 at Everett, Wash., my boss and your friend, Secretary Anderson, addressed representatives of Northwestern farm cooperatives. Some of you were there. I hope that the rest of you who have not read the speech will do so. That speech was a declaration of the faith which the Department of Agriculture has in the cooperative movement and the strong opposition which it takes in the fight now being waged to destroy farm cooperatives.

I would like to add my wholehearted endorsement to that statement and to sort of insert it into the record—as they say in Congress—as part of my own sentiments and then move on from there.

Since most of you know how long I have worked with and in farm cooperatives and how strong I feel about them, I don't think it necessary for me to labor this point. There are other very important issues that will face Congress—and our farmers—in 1948 and I am anxious to discuss them with you.

European Recovery Problems

One of the most important of these questions is aid to European recovery.

I visited Europe in both 1946 and 1947, and there is not the slightest doubt in my mind as to the pressing need for this program and the wisdom of the approach which President Truman has recommended. You have heard a lot about how the people of Europe—particularly those of the cities—are suffering from hunger. They have a terrific food shortage all right, possibly even worse than has been pictured. Hunger is something you can't describe very well. You have to experience it

(Continued on page 32)

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as of January 1, 1948

MR. M. CARTER GUNN

will be associated with us as Vice-President
and as a member of our firm.

We are also pleased to announce that

MR. GARNETT O. LEE, JR.

and

MR. NATHAN H. MORGAN

will be associated with us as members
of our firm.

SCOTT, HORNER & MASON, Inc.
INVESTMENTS

Richmond

Lynchburg

Roanoke

Public Utility Securities

Public Service Corporation of New Jersey

Public Service Corporation of N. J., \$700,000,000 holding company system serving a large part of the State of New Jersey, is about to be "integrated." A plan for the dissolution of the holding company and recapitalization of the electric and gas operating company has been approved by the SEC, after long delays, and is expected to be confirmed by a Federal court without undue delay, since there are no present indications of a court fight by any interests to the plan. Disagreements were pretty well ironed out, it is understood, during the SEC proceedings. Representatives of the preferred stocks and of United Corporation, largest holder of the common stock, now

Public Service Corporation of New Jersey

6% perpetual debentures
8% preferred stock
7% preferred stock
6% preferred stock
\$5 preferred stock
Common stock

The new "preference common stock" is modeled somewhat after that issued by Philadelphia Electric Company, although the initial amount to be outstanding will be about seven times as large as the present amount of Philadelphia stock. On the other hand, Philadelphia has a regular preferred issue of moderate size, so that its preference common is really a second preferred.

The capital structure of Public Service Electric & Gas will consist of \$201,000,000 funded debt, 6,063,000 shares of \$1.40 preference common, and 5,503,000 shares of common stock. The preference stock will be cumulative, will be non-callable for 12 years (after which it is callable at \$35), and will be convertible into varying amounts of the common stock during the initial 12 years. The latter period will be divided into four three-year periods, with conversion declining from 1 1/10 shares in the first to 1 share, 7/8 share and 3/4 share, respectively, in the remaining periods.

Earnings of the Public Service system have been somewhat disappointing in 1947 because of the sharp decline in profits of the transit subsidiary. However, the latter company has asked for an increase in the basic fare from 5¢ to 7¢, and any rate adjustment received should result in substantial restoration of system earning-power. In the nine months ended Sept. 30th, share earnings were \$1.38 a share, as compared with \$1.94 in the previous period. For the calendar year 1947 earnings are estimated at around \$1.85, as compared with \$2.54 in 1946. However, earnings on a pro forma basis would work out around \$2.45 per share, it is estimated, because of the savings on dividend requirements of the new preference stock, as compared with the old 5-8% issues. Conversion of the new preference stock into common—expected to be gradual over a period of years—would, however, again reduce earnings per share (on the basis of 1947 operations) slightly below the present level, to about \$1.80 a share. These figures would be improved, of course,

appear to be satisfied with the plan, following amendments to the original terms. However, the usual legal and corporate delays may prevent complete consummation of the plan until sometime late in 1948.

The exchange of securities of the holding company for those of the recapitalized operating company will be as follows:

Public Service Electric and Gas
50-yr. debenture 6s
4.70 shs. \$1.40 pref. common stock
4.15 shs. \$1.40 pref. common stock
3.70 shs. \$1.40 pref. common stock
3.25 shs. \$1.40 pref. common stock
1 sh. new common and 1/10 share South Jersey Gas Common.

by the anticipated rise in bus fares.

Because of the lift in share earnings to result from the plan, it is anticipated that the dividend rate can be raised from the present rate of \$1.40 to \$1.60 a share when the plan is consummated.

How do the new securities look on a pro forma basis? The price of the new common on a "when issued" basis would probably be around 22, since the old stock has been selling recently around 22 1/2 and the 1/10 share of South Jersey Gas common stock will probably not be worth more than 50¢ to \$1. On this basis, using the recent pro forma estimated earnings, the stock would be selling at about 9 times earnings, and would yield 7.3%. When fully seasoned, considering the large size and good record of the company, the stock might be expected to sell at higher levels, bringing the ratios more in line with corresponding figures for leading utilities (perhaps 12 times earnings, and a yield of around 5 1/2% to 6%).

We've already spent \$22,000,000,000 abroad since the end of the war. Now we're expected to spend \$17,000,000,000 more. Yet, in the mountain of words and figures in this plan, the question of who was to get the money was omitted. Actually, the plan, to be truly revealing, should never have been given to Congress and to the public without this fundamental information: Who gets the money?

After all, who is more entitled to know where his money goes than the man who pays the bill—which means us all? But, the State Department in Washington could not reveal this fact and still feature the anti-communist propaganda—on a \$17 billion, "all-or-nothing" basis.

I want to be factual and exact in discussing on the air this latest project so important in your land and mine—so heavily involved in our inflation, high prices, taxes, the cost of living that is bearing down on us all, and on our future. So, for weeks I've been making every possible attempt I could make to get official information in Washington as to what countries were to get our new \$17,000,000,000 and how much each was to get.

At long last, here are the facts, the official figures—obtainable only yesterday. They indicate much we've not been permitted to know.

The Lion's Share to Great Britain

First, you will find that a full third of our \$17 billion goes primarily to another aid-to-England project. The lion's share of the fund—one third of the entire amount, \$5,348,000,000 of the \$17 (Continued on page 40)

*Radio broadcast by Mr. Taylor under sponsorship of General Motors Corp., Jan. 12, 1948.

Who Gets the Money Under Marshall Plan?

By HENRY J. TAYLOR*

Mr. Taylor reveals State Department proposes to spend about one-third of \$17 billions to be dispensed under Marshall Plan as aid to Britain, "in which communism is no problem." Says \$6 billions is to go to former enemy countries, where communism might be discouraged. Concludes Marshall Plan needs rewriting.

Exactly who gets the money in the latest European Recovery Plan involving \$17 billions? I've just discovered the facts. I think you'll be very surprised to learn them.

Our money doesn't grow on trees. It's hard for most any of us to get along, at best. Before we're challenged further by the idea that the new \$17 billion European plan must be handled on an "all or nothing" basis—and before we start paying the bill in our homes and work places and through the high cost

of living—we need to hear some facts. These are facts that run contrary to public impression—facts which were withheld in the original presentation of the European Recovery Plan itself.

An Amazing Omission

Fact number one is—who gets the money? It's hard to imagine that fact was left out, but it was. It is a fact I think we have a right to know.

We've already spent \$22,000,000,000 abroad since the end of the war. Now we're expected to spend \$17,000,000,000 more. Yet, in the mountain of words and figures in this plan, the question of who was to get the money was omitted. Actually, the plan, to be truly revealing, should never have been given to Congress and to the public without this fundamental information: Who gets the money?

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*Radio broadcast by Mr. Taylor under sponsorship of General Motors Corp., Jan. 12, 1948.

Dealer-Broker Investment Recommendations and Literature

It is understood that the firms mentioned will be pleased to send interested parties the following literature:

Annual Review and Forecast—H. Hertz & Co., 60 Beaver Street, New York 4, N. Y.

Co., 14 Wall Street, New York 5, N. Y.

Allen B. DuMont Laboratories—Circular—Ward & Co., 120 Broadway, New York 5, N. Y.

Electrol, Inc.—Analysis of manufacturer of hydraulic control equipment for aviation and industrial uses—Seligman, Lubetkin & Co., Inc., 41 Broad Street, New York 4, N. Y.

Graham-Paige Motors Corp.—Analysis—Seligman, Lubetkin & Co., 41 Broad Street, New York 4, N. Y.

Also available are analyses of Foundation Co., Wellman Engineering, and Tennessee Products & Chemical.

Lehman Corporation—Changes in portfolio—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Le Roi Company—Analysis in current issue of "Business and Financial Digest"—Loewi & Co., 225 East Mason Street, Milwaukee 2, Wis. This issue also contains a discussion of the Outlook for Wisconsin Industry in 1948.

New Haven Secured 6% 1940—Memorandum—Stern & Co., 25 Broad Street, New York 4, N. Y.

Northwest Utilities—Analysis—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Portsmouth Steel Corp.—Data—Buckley Brothers, 1240 Walnut Street, Philadelphia 2, Pa.

Also available is late information on Du Mont Laboratories and Buffalo Bolt Co.

Shepard Niles Crane & Hoist—Report—Troster, Currie & Summers, 74 Trinity Place, New York 6, N. Y.

Utica & Mohawk Cotton Mills, Inc.—Circular—Mohawk Valley Investing Co., Inc., 238 Genesee Street, Utica 2, N. Y.

COMING EVENTS

In Investment Field

Feb. 3, 1948 (Chicago, Ill.)—Mid-Winter Dinner of the Bond Traders Club of Chicago at the La Salle Hotel.

Feb. 5, 1948 (Kansas City, Mo.)—Bond Traders Club of Kansas City annual dinner at the Hotel Meuhlebach.

Feb. 6, 1948 (St. Louis, Mo.)—Security Traders Club of St. Louis annual dinner at the Chase Hotel.

Feb. 27, 1948 (Philadelphia, Pa.)—Investment Traders Association of Philadelphia Twenty-fourth Annual Mid-Winter Dinner at the Benjamin Franklin Hotel.

March 5, 1948 (New York City)—New York Security Dealers Association 22nd Annual Dinner at the Waldorf Astoria.

March 12, 1948 (Toronto, Ont., Canada)—Annual Dinner of the Toronto Bond Traders Association at the King Edward Hotel.

Nov. 15-18, 1948 (Dallas, Tex.)—National Security Traders Association Convention.

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Our Money Will Never Save Europe!

By FLOYD A. ALLEN

Floyd A. Allen & Co., Inc., Los Angeles

Asserting wildly extravagant ideas of pouring out our resources in vain attempts to support the world will prove a false and unsound hope, Mr. Allen scores use of Marshall Plan to enforce political and social ideas on others. Says our problem is not so much to save Europe as to save ourselves.

One idea that seems to deserve more consideration on the part of our diplomats is that dealings and treaties between nations rest upon the same identical principles as do dealings and contracts between individuals. Many well drawn contracts are broken before their expiration, but unfair, one-sided contracts never work out. The rights of both parties must be recognized and protected; otherwise the contract will be broken. No court will sustain a manifestly unfair contract any more than Portia would sustain Shylock in his unreasonable demands.

The treaties that one of our former officials committed us to at Yalta and Teheran were largely responsible for the confused conditions that now prevail in Europe because those treaties were grossly inequitable.

So it seems to us common people that our wildly extravagant ideas of pouring out our resources of money and goods in a vain attempt to feed and support the world will continue to prove, just as it has already, a false and unsound hope both as it affects us and those whom we are unwittingly trying to help.

The war has been over now for more than two years. If the problems of peace had been approached with anything like the solid businesslike intensity and cooperation that marked the war period things would have been well on the road toward a peacetime adjustment in Europe as they are here. Instead of that the overall picture makes us wonder how so few tangible results should be evident.

We started out to impress the world by our elaborate show of wealth. No one admires a spendthrift. They flatter him and accept his gifts but condemn and laugh at him behind his back. Again note the similarity of nations and individuals. Since the end of the war we have acted like madmen by scattering our dollars and goods all over the world, not on a fair basis of exchange which would have commanded their respect, but rather with a recklessness that must have created in many countries a feeling of jealousy and animosity.

Basis of Business Propaganda

It is not difficult to find a basis for Russia's propaganda that the United States is trying to buy control of Western Europe and other countries by offering financial support with the ill-concealed provision that the beneficiaries adopt the economic measures that we prescribe. We may be quite sincere in wishing other countries to enjoy the many blessings and liberties that our wonderful way of life provides, but to impose those measures upon them by decree would be too much like the measures that Russia has adopted in forcing her policies upon her recently acquired satellites.

Besides, the Atlantic Charter, whether real or fancied, contained at least one provision that was quite universally accepted. I refer to the one giving to each country the choice as to its own type of government. It is clear that the so-called border states have not been accorded that privilege but that fact does not warrant us in



Floyd A. Allen

adopting similar iron-hand methods in imposing our will upon other nations. If England wishes to try out her Socialistic experiment let her continue it until its bitterness penetrates to her every fiber and its futility is evident to its most ardent advocate. Then she will throw her political machinery into reverse without any outside admonition. If France chooses to blind herself to the infiltration of Russian Communists until they nearly dominate her political status, let her pay the penalty just as she is now doing until her naturally proud and liberty-loving people are sufficiently aroused to rid themselves of that menace.

Marshall Plan Not Wholly Altruistic

The so-called Marshall Plan was not conceived as a wholly altruistic measure. Our Washington manpower usually think first in political terms—then for our national welfare—with humanitarianism in only "show" position. So our foreign program is undoubtedly intended to construct a dam that will check the authoritarian flood before it engulfs us. That objective is highly laudable but the means clearly questionable.

England did not purchase her position of national prominence which she occupied for 100 years or more with goods or money. Her tight little isles, precariously located almost under the eaves of other powerful and jealous countries, acquired her dominant position in world trade and finance by using the only universal language known and recognized in international politics, the language of might.

Today we are striving toward certain goals by methods that are highly controversial as any poll of public opinion would indicate. We are trying to convince ourselves that our policies looking toward the relief and upbuilding of many foreign countries are activated by motives that are pure, unselfish and highly ethical. But we are already faced with criticism, ingratitude, loss of trade and open defiance. Our money will never save Europe. Her salvation, when it comes, as it will in time, will be a result of her own concrete efforts. France has already set an example in that direction, not by pussy-foot or compromise, but by an admirable display of force and determination which cowed the infiltrating agents from the Eastern empire and won the nearly unanimous approval of the citizens of that proud country.

Our sights must be readjusted; our number one problem is not so much to save Europe as to save ourselves; not to build another vague Maginot Line against an imagined attack 10 years from now but to preserve our resources, identify and expose and even deport, if necessary, the disrupting elements of our own society and fortify our defenses until we can, with courage and confidence, defy the over-aggressiveness of any other country by such an overwhelming display of force—both military and economic—that no other country will be rash enough to test the strength of our armor.

Harry C. O'Brien With W. E. Hutton & Co.

CINCINNATI, OHIO—Harry C. O'Brien, formerly an officer of Katz and O'Brien, has become associated with W. E. Hutton & Co., First National Bank Building, members of the principal stock exchanges, as manager of the municipal department. Mr. O'Brien has been active in the municipal field for 25 years. He served as a director of the Cincinnati municipal group and for many years was National Committeeman for the Cincinnati Stock and Bond Club.

Prescott Co. Admits; Changes in Affiliate

CLEVELAND, O.—Admission of Robert O. Shepard as a general partner and William P. Palmer, Jr., as a special partner is announced by Prescott & Co., New York Stock Exchange firm in the Guardian Building. Announcement is also made that Hawley, Shepard & Co., Inc., corporate affiliate of Prescott & Co., has changed the company name to Prescott, Hawley, Shepard & Co., Inc.

Officers and personnel of the corporate affiliate remain unchanged, with Mr. Shepard continuing as President and J. C. Anderson and Tom D. Morrow as Vice-Presidents. Mr. Shepard is a member of the Board of Governors and former Chairman of the Northern Ohio Group of the Investment Bankers Association, Vice-President of Investment Dealers of Ohio, Inc., Chairman of the Ohio Municipal Advisory Council, member of the National Municipal Committee of the Investment Bankers Association, and a past President of the Cleveland Bond Club.

Mr. Palmer had been a special partner of Prescott & Co. and its predecessor firm for several years before joining the U. S. Coast Guard Reserve for more than four years of active duty outside the United States, retiring from the service late in 1945 with the rank of Lieutenant, senior grade.

Amsterdam S.E. Chess Men Challenge NYSE to Match

A team of chess players representing the Amsterdam Stock Exchange, has challenged members of the New York Stock Exchange to a radio-cable match. The date is tentatively set for Feb. 14, and preparations are under way for selecting members to represent the New York Exchange. Those wishing to qualify for membership on the team should contact Herbert W. Marache, Granberry, Marache & Lord, or Isaac Kashdan, Jacques Coe & Co.

Lynch, Allen & Co., Inc. Formed in Dallas, Tex.

DALLAS, TEX.—Lynch, Allen & Co., Inc., has been formed with offices in the First National Bank Building, to engage in a securities business. Officers are William F. Lynch, President, and Orville G. Allen, Jr., Vice-President. Both were formerly associated with the local office of R. H. Johnson & Co., of which Mr. Lynch was co-manager in charge of the municipal bond department.

Outlook for Real Estate Securities

By H. R. AMOTT

President, Amott, Baker & Co., Incorporated

Pointing out that holder of real estate bonds fared quite well in 1947, Mr. Amott states that conditions favor a further enhancement in values during the present year. Observes that there has been virtually no new real estate bonds issued to public since 1932 and expects a further contraction of the available supply this year, with consequent beneficial effect on outstanding issues and equity stock values.

In spite of a rather dismal year for the securities markets in general, the holder of real estate bonds fared quite well in 1947. Between Dec. 31, 1946, and Dec. 31, 1947, the average price of a \$1,000 real estate bond, as measured by Amott-Baker Real Estate Bond Price Averages—an index of 200 issues—rose from \$730 to \$783, an increase of 7.2%. Looking back a short seven years to Dec. 31, 1940, the average price of a \$1,000 bond, as measured by the same index and comprising the same issues, was \$281.

Thus, approximately two and one-half years after the cessation of hostilities we find that real estate bonds are selling some 50 points or 178% above their prewar level. The explanation for this recovery in real estate bond prices is not too difficult to find. With our entry into World War II all of our urban centers—both commercial as well as industrial—took on renewed life. Within an astonishingly short period the influx of thousands upon thousands of our people from rural and suburban areas into our cities to work in factories, government agencies and businesses of every description filled these centers of activity to the bursting point. In addition, during the ensuing three and one-half years of hostilities there was neither the time, nor the money, nor the material nor the labor to construct new homes and new office and loft buildings to alleviate the space shortage. As a result, vacancies in all types of buildings disappeared rapidly. Landlords for the first time in a great number of years found themselves in a sellers' market and in spite of the enactment of Federal and local rent controls, the earnings of buildings climbed steadily.

Pessimism Unwarranted

Those who forecast the end of full occupancy and a consequent decline in earnings and real estate values when the war terminated failed to reckon properly with the facts. The facts were and still are that in our changeover to a war economy we built up an unprecedented backlog of orders of peacetime goods and services which would tax the producing capacity of our industrial machine for a long time. In addition, our gen-

eral economy became vastly changed and by the war's end we found ourselves with a tremendous increase in the National Debt and in the supply of money. Along with this, the National income soared to record heights and with it the cost of materials and labor rose on a corresponding scale. Similarly, in terms of replacement costs existing buildings took on entirely new values. For example, in New York City, building costs today are approximately 130% above the 1939 level and about 110% higher than during the 1926-1929 building boom. With replacement costs at so high a level it is evident that rentals in the newly constructed buildings must be substantially higher than rentals in existing structures, for the current rates in the older buildings are far below the level required to support the cost of new building. Competition from new building, therefore, will be of a healthy kind since it will not be on a price basis.

Stability Required

To have economic prosperity requires stability in our real estate market. History clearly records that in every period during which business activity was at a high level the earnings and value of real estate were correspondingly high. In my opinion, business activity during 1948 will continue at a high level and with it we will witness a further gain in real estate values. Real estate bonds and stocks similarly will move upward. Since there have been almost no new real estate bonds issued to the public dating back to approximately 1932—other than exchanges of issues through reorganizations, foreclosures, etc.—the dollar amount of realty bonds has progressively diminished year after year by sinking fund operations, property sales and refundings. There will be a further shrinkage in the dollar amount of bonds this year which as I see it will add to the already pronounced tightening of the market in the remaining outstanding issues and will stimulate further equity stock values.

In sum, the general outlook for real estate bonds and stocks in 1948 looks basically very promising.

ACTIVE MARKETS

ALL

REAL ESTATE STOCKS & BONDS

Bought—Sold—Quoted

SIEGEL & CO.

39 Broadway, N. Y. 6 Dibby 4-2370
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AMOTT, BAKER & CO.

INCORPORATED

Wholesaler and Retailer of Investment Securities

Our Trading Department specializes in real estate bonds and stocks, title company and bank participation certificates.

150 BROADWAY NEW YORK 7, N.Y.
Boston Philadelphia

Connecticut Brevities

For the fiscal year ended Sept. 30, 1947, Norwalk Tire & Rubber Co. reported net sales of \$9,913,258, against \$10,426,518 for the preceding fiscal year. Net income was \$201,574, against \$469,828 a year ago. Earnings per common share were \$1.00, against \$2.25 (after preferred dividends) in 1946.

The plan of dissolution of the Connecticut Gas & Coke Securities Co., and the release of liability of Koppers Co., Inc., and The United Gas Improvement Co., was approved by the Securities and Exchange Commission on Dec. 9. In accordance with the company's request, the Commission has applied to the District Court of the United States for the District of Connecticut to enforce and carry out the terms and provisions of such plan. The Court has ordered a hearing at New Haven on Jan. 19, 1948.

For the 52 weeks ended Dec. 27, 1947, the New York, New Haven & Hartford Railroad reported 1,238,113 revenue freight cars handled. This compares with 1,302,606 for the corresponding period a year ago, or a decline of approximately 5%.

Collins Company declared a dividend of \$5.00 a share payable Jan. 15 to stock of record Jan. 6.

Wilbur G. Hoye, a partner in the brokerage firm of Chas. W. Scranton & Co., has been elected a director of the Security Insurance Co. of New Haven. Mr. Hoye is also a trustee of the National Savings Bank of New Haven, and a director of the Acme Wire Co., the Greist Manufacturing Co., and Bush Manufacturing Co.

For the month of November, 1947, the Connecticut Power Co. reported sales of kilowatt-hours totaling 26,725,757 compared with 21,398,000 for November of 1946. This constitutes an increase of 24.9%.

According to G. C. Denebrink, Vice-President of Bigelow-Sanford Carpet Co., 1947 sales were approximately 60% greater than net sales of 1946 (which aggregated \$39,222,359). A further rise is expected this year. On contract business, the company is still working against a backlog placed in 1945.

For the year ended Dec. 31, 1947, the Hartford National Bank & Trust Co. showed net operating earnings of \$873,526 or \$2.18 against \$977,672 or \$2.44 a share for the preceding year. Indicated earnings per share were \$1.59 against \$1.84.

Total assets at the end of 1947 were \$146,764,072 compared with \$135,853,633 a year ago. Deposits at the year-end totaled \$135,472,716 against \$124,780,765 as of Dec. 31, 1946, an increase of approximately 8 1/2%. Book value per share increased from \$25.09 to \$25.68 as of Dec. 31, 1947.

The Phoenix State Bank & Trust Co. had total assets of \$80,540,290 at the end of the year 1947. This compared with \$79,445,324 a year ago. There was no change in capital and surplus; \$103,098 was added

to undivided profits, bringing the total to \$1,327,457; and deposits totaling \$74,773,556 were up 1.3%.

Four Connecticut banks and trust companies are considering plans for capital increases.

The stockholders of the Manchester Trust Co. will act on a proposal to increase their capital from \$100,000 to \$200,000, and reduce current par value from \$100 to \$25.

The Shelton Trust Co. will likewise vote on an increase from \$100,000 to \$200,000 by the issuance of 1,000 new \$100 par stock at \$125 a share. This will add \$25,000 to surplus.

The Brooks Bank & Trust Co. of Torrington is contemplating adding \$50,000 new capital to bring the total to \$200,000 by the issuance of 2,000 new shares of \$25 par value stock at \$37.50. This will raise \$25,000 to be added to surplus. With the transfer of \$25,000 from undivided profit and loss to surplus, both the new capital and surplus would be \$200,000.

The Park Street Trust Co. of Hartford proposes to increase its capital from \$100,000 to \$200,000 through issuance of new shares of \$25 par value at \$25 on a share-for-share basis.

Lyman B. Brainerd has been elected a director of the Phoenix Insurance Co. of Hartford.

M. Carter Gunn V-P. of Scott, Horner Co.

LYNCHBURG, VA.—M. Carter Gunn has become associated with Scott, Horner & Mason, Inc., Law



M. Carter Gunn

Building, as Vice-President. Mr. Gunn was formerly an officer of C. F. Cassell & Co., Inc. Also associated with the firm are Garnett O. Lee, Jr. and Nathan H. Morgan.

Stock Options, Inc. Formed

Stock Options, Inc., has been formed with offices at 30 Broad Street, New York City. Officers are Charles Godnick, President, and Berton Godnick, Vice-President and Secretary, and Henrietta Godnick, Treasurer. Charles and Berton Godnick have been associated as partners of Godnick & Son.

Atherton Elected Pres. Phila. Secs. Association

PHILADELPHIA, PA.—Dudley R. Atherton, Jr., of S. F. McSweeney & Co., was elected President of the Philadelphia Securities Association at the Association's annual dinner meeting held Jan. 8 at the Broadwood Hotel.

Paul W. Bodine of Drexel & Co. was elected Vice-President; Newlin F. Davis, Jr., Kidder, Peabody & Co., was elected Treasurer; and Harry L. Heffelfinger, Samuel K. Phillips & Co., was elected Secretary.

To membership on the Board of Governors to serve for three years the following were elected: Dudley R. Atherton, Jr., Paul W. Bodine, Harry L. Heffelfinger, and Sewell W. Hodge of Provident Mutual Life Insurance Co.

Guests at Dinner of Detroit Stock Exchange

DETROIT, MICH.—Corporate executives, city bankers and Federal Reserve officers were the guests of honor at the Fortieth Anniversary Dinner of the Detroit Stock Exchange members at the Statler Hotel Jan. 14. Several other stock exchanges were represented by their Presidents, including Harry Besse, Draper, Sears & Co., Boston; James Day, Chicago, and Richard Gottron, Gottron, Russell & Co., Cleveland, who were welcomed to the reception and dinner by Milton A. Manley, retiring President of the local Exchange.

Laurence F. Whittemore, President of the Federal Reserve Bank of Boston, was the speaker.

C. Edgar Honnold Opens Inv. Trust Dept.

OKLAHOMA CITY, OKLA.—C. Edgar Honnold, First National Building, announces the opening of an Investment Trust Department with Merlin A. Collier, formerly of Slayton & Co. of St. Louis, in charge in Oklahoma City, and Mr. Charles L. Haynes in charge of the Tulsa office at 207 Simmons Bldg., Tulsa, Okla.

Bache Whitlock Dies

Bache McEvers Whitlock, partner in Farr & Co., New York City, died at his home in Palm Beach, Fla., of a heart attack.

Neville Higham Dead

Neville G. Higham, member of the New York Stock Exchange, with offices at 50 Broadway, New York City, ended his life by gas poisoning, according to a police report. Mr. Higham, who was 78 years old, left a note indicating that he was ill and despondent.

TIFFT BROTHERS

Members New York and Boston Stock Exchanges
Associate Members New York Curb Exchange

Primary Markets in

Hartford and Connecticut Securities

Hartford 7-3191

New York:
Barclay 7-3542

Bell System Teletype: HF 365

Michigan Brevities

On Jan. 8 a registration statement was filed with the Securities and Exchange Commission covering 399,990 shares of Bendix Aviation Corp. common stock, par \$5 which are now owned by the General Motors Corp. The stock will be publicly offered through Morgan, Stanley & Co., at a price to be filed by amendment. When this sale has been consummated, General Motors will have disposed of the remaining balance of the stock interest it has held in Bendix Aviation continuously since 1929.

During the period of its ownership of the Bendix stock, General Motors has given consideration from time to time to the complete acquisition of the Bendix concern as a division or a wholly-owned subsidiary. General Motors announces that it has "come to the conclusion that such acquisition and operation by General Motors does not seem feasible."

According to a registration statement filed with the SEC on Jan. 6 the Kaiser-Fraser Corp. plans to issue and sell 1,500,000 additional shares of its \$1 par value common stock through a group of investment bankers headed by Otis & Co., First California Co. and Allen & Co. at a price to be filed by amendment. The net proceeds will be added to Kaiser-Fraser's general funds and used to acquire equipment and inventories necessary to increase its output of automobiles to 1,500 per day.

On Jan. 7, an underwriting syndicate headed by the First Boston Corporation offered publicly 450,000 shares of \$20 par value capital stock of the Detroit Edison Co. at \$20.50 per share. This issue, which was part of a total of 1,418,125 outstanding shares owned by American Light & Traction Co. as of Dec. 31, 1947, was oversubscribed. Miller, Kenover & Co. of Detroit participated in the offering.

McClanahan Oil Co. of Grand Rapids, on Dec. 30 filed a registration statement with the Securities and Exchange Commission covering 260,000 shares of its \$1 par value capital stock. These shares are being issued on the basis of one share in exchange for each two shares of Great Lakes Chemical Corp. \$1 par stock under an exchange offer which will expire March 15, next.

On Dec. 24 a total of 40,040 shares of \$1 par value common stock of Gerity-Michigan Corp. of Adrian were offered publicly at \$9 per share for the account of James Gerity, Jr., its President and General Manager, who continues to hold 60,000 shares or 7.82% of the corporation's outstanding 767,500 common shares.

Smith, Hague & Co., Detroit, together with other investment bankers, on Dec. 18 publicly offered 125,000 shares of \$1 par value common stock of Wisconsin Central Airlines, Inc. at \$4 per share, the net proceeds to be used to pay off outstanding short-term notes, for purchase and conversion of aircraft, for additional working capital, etc.

Charles A. Parcells & Co.

Established 1919
Members Detroit Stock Exchange

Michigan Markets

639 Penobscot Building
DETROIT 26, MICH.

Telephone Randolph 5625
Teletype DE 206

Allied Paper Mills, Inc.

Estimated Earnings for 1947
\$10.00 per Share

Moreland & Co.

Member Detroit Stock Exchange
1051 Penobscot Building
DETROIT 26, MICH.
Bay City — Lansing — Muskegon

Torrington Company

CAPITAL STOCK

PRIMARY MARKETS

Statistical Information

CHAS. W. SCRANTON & Co.

MEMBERS NEW YORK STOCK EXCHANGE

New Haven 6-0171

New York Canal 6-3662

Telephone NH 194

Waterbury 3-3168

Danbury 5600

New London 2-4301

Telephone 7-2800

Lists Steps for Retailers In Inflation Fight

Beardsley Ruml tells retailers to avoid speculative commitments and exercise caution in building and maintenance expansion.

Speaking before the American Retail Federation meeting in Washington, Jan. 9, Beardsley Ruml, Chairman of R. H. Macy & Co., Inc., listed the two principal problems facing retailing as uncertainty as to continued peace and control of inflation and deflation. Regarding steps that retailers should take to aid in the fight to curb inflation, Mr. Ruml stated:

"First of all we can satisfy ourselves that inflation is a bad thing for the country, a bad thing for retailing, that we already have too much of it, that we would like to see lower prices and that we will do what we can to restrain price advances and where possible to bring them down.

"Next, we can avoid speculative commitments that are beyond the scope of running our businesses efficiently. We will recognize that in doing so, some of the speculators will make more money than we will, and we will have to grin and bear it.

"Third, we can be cautious about all expenditures for building and maintenance, and thereby take all unnecessary pressure off the capital goods markets. This does not mean that we should not and will not make many capital improvements that are called for in the efficient conduct of our business. But we should be cautious and restrained and above all, not



Beardsley Ruml

speculative. This will help the fight on inflation and in the end we will be able to have what we need when we need it and at a lower cost.

"Fourth, we should cooperate with the government in the measures and policies that may be deemed necessary for inflation control. Some of these we may not like, some may seem silly, some unnecessarily harsh. But the inflation problem calls for leadership, and a leader must have followers who will subordinate for the time being their inclinations to do whatever they please. This is a free country and one way of exercising freedom is through cooperation in times of danger.

"One measure of cooperation that retailers will probably be called to participate in is a vastly increased effort in the sale of United States savings bonds to the public. This is a strong measure against inflation, and is particularly called for when taxes are reduced. Many retailers may find such a program distasteful and contrary to their immediate selfish interests. But I think that analysis will convince you that the voluntary purchase of bonds is better today than the involuntary payment of an equivalent amount in taxes. It is to be hoped that retailers will support any call for savings bond sales in the inflation crisis just as they did the war bond sales in time of war."

Has 9-Point Program for Germany

Louis H. Pink, former Insurance Superintendent of New York, presents recommendations of Citizens Conference on International Economic Union.

A report, prepared by its Chairman, Louis H. Pink, formerly Superintendent of Insurance of the State of New York, for the Citizens Conference on International Economic Union, composed largely of economists, writers, and university people, contains a nine-point

program which he considers necessary if the support of Western Germany is to be lifted from the United States taxpayer, and a peaceful and prosperous Europe created.

"We do not intend to stay in Germany except to see to it that Germany does not rearm and again become a danger to her neighbors," said Mr. Pink. "But we are today as responsible for the welfare of Germany and her people as for any part of the United States, Alaska, or Hawaii. Temporarily, our zone in Germany is United States territory."

Of the nine points necessary for a revived Germany, Mr. Pink laid greatest emphasis on a customs union, which would lead to an economic United States of Europe, and urged that the United States, Britain, and France promptly incorporate their zones in the Benelux Customs Union, now composed of Holland, Belgium, and Luxembourg, as a practical example of our desire to rebuild Europe not for our own selfish advantage but for the common good.

"Many of us are disappointed," Mr. Pink said, "that the reconstruction of Europe is not to be carried out through the agencies of the United Nations with ade-



Louis H. Pink

quate technical and financial help from the United States. Such a course of action would have saved us much suspicion and many critical involvements both in Greece and Europe. But the important thing is that the job be done as quickly and intelligently as possible. The Marshall Plan is as essential to us as to Europe itself."

Stressing that "an economically strong and self-sustaining Western Germany would not only have a salutary effect on our relations with Russia but would benefit all of Germany's neighbors," Mr. Pink scored the Morgenthau Plan as unworkable. "It is ridiculous to say that the people in any area shall not be permitted to raise their standard of living by their foresight, industry, and ability. Every part of Europe should be encouraged to increase its standard of living to the utmost. . . . A limitation of production would keep Germans poor and discontented and would be a long step away from, rather than toward, security and peace."

The other eight steps which Mr. Pink urged are: (1) revival of industry with curbs against rearmament as proposed by U. S. General Staff; (2) currency stabilization; (3) greater coal production through incentives and development of the Ruhr by an International Authority; (4) improved transportation; (5) a supply of capital goods; (6) education for democracy; (7) a federated central government; and (8) cutting of red tape between zones and surrounding nations.

A Revival of Old "New Deal"

By HON. ROBERT A. TAFT*
U. S. Senator from Ohio

Republican party spokesman, in criticizing President Truman's State of the Union message, accuses Chief Executive of playing politics by having the Federal Government act as Santa Claus for all special groups. Says President's social security proposals are revival of New Deal, which, he contends, did not live up to its promises. Says new proposals will lead to national bankruptcy and attacks President for neglect of Government economy. Scores President's tax proposals as stifling investment, and predicts Republican Congress will reduce both spending and taxes.

I listened yesterday with great interest to the President of the United States on the State of the Union. The message states in general terms the ideals and principals and program of the present Administration. The detailed specifications for some actions



Robert A. Taft

the country is crying for all these improvements in social welfare and every other field, what has the New Deal administration been doing for 15 years?

They demanded and obtained from Congress infinite power—so great that President Roosevelt said it would only be safe in his hands and not in those of the Republicans. They demanded and received huge sums of money. Plenty of that money was spent, but apparently little was accomplished. The President admits it. He says our social security system has gaps and inconsistencies and is only half finished. As a matter of fact, the old-age insurance system is utterly and completely inadequate. Today, many who have contributed to that system all their lives receive less in their old age than many receive from old-age assistance who have contributed nothing.

The President says there is still "lack of provision for the nation's health," and "that most of our people cannot afford to pay for the care they need." This is a gross exaggeration, but what has the New Deal been doing with all our money? He says that millions of children do not have adequate school houses or enough teachers, and that millions of our youth live in city slums and country shacks. Surely, this is a more severe indictment of the Roosevelt administration than any Republican can make, for that Administration had more power and more money to accomplish its purposes, widely advertised for political effect, than any administration in the history of the United States.

One cannot but feel that the recent announcement of Mr. Henry Wallace has had a substantial effect on the State of the Union. Henry himself will have a hard time to find anything to promise the people of this country which is not promised in this message.

The President is apparently determined that the Left-wing of the American Labor party and its labor union friends throughout the country shall be bound to him and shall have no excuse to stray into the Wallace camp. He has raised all the ghosts of the old New Deal with new trappings that Tugwell and Harry Hopkins never thought of.

Attacks New Deal

The first point that occurs to me is that the New Deal administration has been in control of this government for 15 years. If

*A radio address by Sen. Taft broadcast over the American Broadcasting Network, Jan. 8, 1948.

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1,000 Shares

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COMMON STOCK

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country and the welfare of their employees. There are few, indeed, who don't equal the New Dealers in their sincere and earnest desire for uplift and progress in America.

Reason for New Deal Failures

But we do question the effect of New Deal measures and philosophy. Most of their plans are more likely to interfere with prosperity than they are to bring it about, first, because they ignore the fundamental economic principles necessary for prosperity; second, because they promise something for nothing, and, third, because they ignore the vital necessity of maintaining the principles of freedom and justice to which they give a general lip service.

Measures which destroy the freedom of the individual, freedom of states and local communities, freedom of the farmer to run his own farm and the workman to do his own job, in the end do more harm than good, even to those supposed to be benefited. Measures which reduce the field in which the free competition of private enterprise can operate, reduce both freedom and production. Measures which ignore justice for social ends destroy the fundamental purpose of the American government.

The first principle of the New Deal was the spending of money. This message, in tax recommendations, admits that taxation is already too heavy on millions of people. Yet, strangely enough, the message proposes additional expenditures, far beyond the \$40,000,000,000 which is said to be included in the budget still (Continued on page 28)

Central Illinois Elec. & Gas
Common & Preferred
Curtiss Companies, Inc., Com.
Delhi Oil Corp. Com
Ft. Wayne Corrugated Paper Co.
Common
Jessop Steel Co. Com. & Pfd.
Southern Union Gas Co. Com.

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Members New York Stock Exchange
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CHICAGO 4, ILLINOIS
Tele. CG 730 Tel. State 0400

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New York Stock Exchange Weekly Firm Changes

The New York Stock Exchange has announced the following firm changes:

Transfer of the Exchange membership of the late Jerome J. Danzig to Edward R. Byer will be considered by the Exchange on Jan. 22. It is understood that Mr. Byer will act as an individual floor broker.

Interest of the late Andrew Hazlehurst in Norris & Kenly ceased Jan. 8.

Interest of the late Joseph F. Crowley in Thomson & McKinnon ceased Dec. 31.

S. Pedolsky Opens Office

POUGHKEEPSIE, N. Y.—Samuel Pedolsky is opening offices at 25 Cannon Street to engage in the securities business. He was formerly an officer of Markley & Co., Inc., and prior thereto conducted his own investment business in Poughkeepsie.

REPORT OF CONDITION OF

Underwriters Trust Company

of 50 Broadway, New York 4, New York, at the close of business on December 31, 1947, published in accordance with a call made by the Superintendent of Banks pursuant to the provisions of the Banking Law of the State of New York.

ASSETS

Cash, balances with other banking institutions, including reserve balances, and cash items in process of collection	\$7,544,017.75
United States Government obligations, direct and guaranteed	9,059,161.69
Obligations of States and political subdivisions	5,511,245.45
Loans and discounts (including \$191.93 overdrafts)	14,389,688.63
Banking premises owned, none; furniture and fixtures and vaults	33,865.59
Other assets	92,215.67
TOTAL ASSETS	\$36,630,194.78

LIABILITIES

Demand deposits of individuals, partnerships, and corporations	\$20,959,889.06
Time deposits of individuals, partnerships, and corporations	5,566,770.35
Deposits of United States Government	64,182.95
Deposits of States and political subdivisions	6,024,813.74
Deposits of banking institutions	322,308.14
Other deposits (certified and officers' checks, etc.)	929,050.80
TOTAL DEPOSITS	\$33,867,015.04
Other liabilities	119,404.91
TOTAL LIABILITIES	\$33,986,419.95

CAPITAL ACCOUNTS

Capital	\$1,000,000.00
Surplus fund	750,000.00
Undivided profits	893,774.83

TOTAL CAPITAL ACCOUNTS	\$2,643,774.83
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TOTAL LIABILITIES AND CAPITAL ACCOUNTS	\$36,630,194.78
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This institution's capital consists of common stock with total par value of \$1,000,000.00.

MEMORANDA

Assets pledged or assigned to secure liabilities and for other purposes

\$4,005,811.10

I, WILLIAM D. PIKE, Secretary of the above-named institution, hereby certify that the above statement is true to the best of my knowledge and belief.

WILLIAM D. PIKE

Correct—Attest:

CHRISTIAN W. KORELL
SUMNER FORD
J. B. V. TAMNEY

Directors

Our Year-End Comparison of Operating Earnings and Ratios

20 New York City Bank Stocks

Circular on Request

Laird, Bissell & Meeds

Members New York Stock Exchange
120 BROADWAY, NEW YORK 5, N. Y.
Telephone: BArclay 7-3500
Bell Teletype—NY 1-1248-49
(L. A. Gibbs, Manager Trading Dept.)

THE COMMERCIAL & FINANCIAL CHRONICLE

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week—Insurance Stocks

Fire Insurance stocks, as measured by Standard & Poor's weekly index, have been moving up the past few months. Relative to the general market, as measured by the Dow Jones Industrial Average, they have been doing better since the end of July, 1947, to wit:

Date	Relatives			
	Industrials	Fire Ins.	Industrials	Fire Ins.
July	183.18	117.7	100	100
August	178.85	115.5	97.6	98.1
September	178.10	114.4	97.2	97.2
October	183.06	117.9	99.9	100.2
November	181.35	117.9	99.0	100.2
December	180.56	118.3	98.6	100.5
Jan. 7, 1948	179.83	120.1	98.2	102.0

*Last Wednesday of each month.

This steady may indicate that at last, after some five years of relatively poorer market performance than the Dow Jones Industrials, the relative trend is reversing.

Over the full year 1947, from Dec. 31, 1946 to Dec. 30, 1947, the Dow Jones Industrials appreciated 1.9%, from 177.20 to 180.56, while fire insurance stocks declined 1.0%, from 119.5 to 118.3. By Jan. 7, 1948 the index had moved up to 120.1.

The market performance of many individual stocks varied considerably from the index, as shown in the accompanying tabulation of the price changes of the stocks of 21 leading companies.

	Asked Prices		Change
	12-31-46	12-31-47	
Aetna Insurance	56 1/2	50	-11.5%
Agricultural Insurance	73	61 1/2	-15.8%
Boston Insurance	65	67	+3.1%
Continental Insurance	51 3/8	55 5/8	+8.3%
Fidelity-Phenix	56	57 1/2	+2.7%
Fire Association	55	47 1/2	-13.7%
Franklin Fire	20 5/8	18 3/4	-9.1%
Great American	28 3/8	27 5/8	-2.6%
Hanover Fire	25 3/4	25 1/2	-1.0%
Hartford Fire	106 1/4	109	+2.6%
Home Insurance	24 3/4	24 3/4	—
Insurance Co. of North America	100	98 1/2	-1.5%
National Fire	53	44	-17.0%
New Hampshire	51 1/2	45	-12.6%
North River	22 1/2	24 1/4	+7.8%
Phoenix Insurance	89	80 1/2	-9.6%
Providence Washington	36 1/2	33 1/4	-8.9%
St. Paul Fire & Marine	67	71	+6.0%
Security Insurance	30 1/2	25	-18.0%
Springfield Fire & Marine	42 5/8	43 3/4	+2.6%
U. S. Fire	50	49	-2.0%

—4.3%

AVERAGE

It will be noticed that the average decline of the 21 stocks over the year was 4.3%. However, the price of seven stocks appreciated, the maximum being 8.3% by Continental. One stock, Home Insurance showed no change, while 13 stocks depreciated in price, the greatest loss being the 18.0% sustained by Security of New Haven, and the minimum loss 1.0% by Hanover.

Casualty & Surety stocks, as measured by Standard & Poor's weekly index, moved from 161.0 on Dec. 31, 1946 to 153.2 on Dec. 30, 1947, a decline of 4.8%. On Jan. 7, 1948, the index had moved up to 155.0. The record of 10 representative stocks in this group over the year was as follows:

	Asked Prices		Change
	12-31-46	12-31-47	
Aetna Casualty & Surety	86 1/2	85	-1.7%
American Surety	61 1/2	54 1/2	-11.4%
Continental Casualty	52 1/2	52	-1.0%
Fidelity & Deposit	168	150	-10.7%
Hartford Steam Boiler	41	32	-22.0%
Maryland Casualty	11 1/2	13 1/8	+20.7%
*Massachusetts Bonding	34 1/2	31	-10.1%
Seaboard Surety	53	49 1/2	-6.6%
U. S. Fidelity & Guaranty	47 1/4	49 1/2	+4.8%
U. S. Guarantee	84	69	-17.9%

—5.6%

AVERAGE

*Adjusted for 2 1/2 for 1 stock split.

The casualty stocks did not fare quite so well as did the fire stocks, based on Standard & Poor's indices, as well as on the individual stocks selected for comparison.

Both fire and casualty groups wrote a record volume of business in 1947, and the prospects are that 1948 will be another year of high volume of total business. It is not anticipated, however, that the percent increase over last year's volume will be as great as was 1947's increase over the 1946 volume.

Correction

Editor's Note: In the "Bank Stocks" published in the issue of Jan. 8, page 20, there was included a discussion of the considerable change which occurred in the earnings assets of New York City banks during 1947, and two tables, illustrating the nature of the revision, were given. Owing to a mechanical error, the comparative dates were reversed with the result that the figures for Dec. 31, 1947 were carried under Dec. 31, 1946, and vice versa. We regret this mistake and, in order to clarify the situation, are reproducing herewith the related tables as they should have appeared:

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Dewey Says New Deal Policy Aggravates Inflation

Says Roosevelt prewar monetary policy combined with deficit spending and economic vacillations have destroyed real values.

Cites higher costs of State Government due to inflation.

Governor Thomas E. Dewey of New York, in his message to the Legislature on Jan. 7, stressed the evils of inflation now pressing upon the nation and took the occasion to lay much of the blame on "New Deal" Democratic policies. In the opening portion of his address, Gov.

Dewey stated:

"Each year that I have delivered my annual message, the existence of war or its immediate aftermath laid its pall upon us and upon the State. Each year I looked longingly and, I dare say each of you did too, to the next

year when the dislocations of war would be over and the abundance and tranquility of peace would have returned to us and to all the land. Last year I opened my remarks to you by expressing the wish and the hope, that in 1947, despite the hazards ahead, we would see the completion of re-conversion and the resumption of balanced peacetime production. But it was not to be so soon.

"Instead, throughout the nation our economy has been cut loose in an inflationary whirlwind, the extent and damage of which may yet prove to be unprecedented in our history. Its like has been seen in other countries in the past with disastrous results.

"Primarily, the present inflation arises out of the dislocations of the war but the condition has been greatly aggravated by other factors, notably the vacillations of economic policy in the national government. In the 1930's the dollar was devalued, the national debt continuously increased and production of all kinds was discouraged. In this weakened condition, war came to us during which the national debt was increased to almost \$300 billion, while real values were being heavily and inevitably destroyed. A large part of this huge debt was financed by expanding bank deposit money—the modern equivalent of printing press inflation.

"The result was that when the war ended there was three times as much money as before in the pockets of the people and in bank



Thomas E. Dewey

accounts; but there was a shortage of everything people wanted to buy.

"The danger of runaway price inflation was clear. However, instead of controls being maintained until peacetime production could get started, the entire structure of wartime inflation control was undermined by Executive Order on Oct. 30, 1945, relaxing wage controls. This fatal action, together with bad enforcement generally, destroyed the effectiveness of price controls by the summer of 1946. Thus was launched the wage-price-profit spiral which soon wrecked the last vestiges of inflation control and brought about the present exorbitant scale of living costs.

"I suppose there is hardly a family in our State in which husband and wife, bread-winner and home-maker, have not suffered from the shrinking value of the dollar. The high cost of living, the high cost of everything, has its withering effect on everything we do.

"Just as this inflation has its impact on every home, it also has its effects on the house of government, multiplied a thousandfold. And so, as I discuss with you today the condition of our State, almost every problem before us is aggravated by this inflation in the form of high costs and shortages of goods and services.

"No man can surely prophesy the course or the end of the present period of mounting inflation. One thing, however, is clear. These times demand the utmost skill and caution in the management of government throughout the State. In every possible direction we must use our foresight and weigh our every decision with due regard to the economic imbalances which afflict us along with the rest of the nation.

"Let me briefly state some examples of how this inflation has affected our State.

"The State feeds nearly 122,000 persons in its various institutions. During the current fiscal year, the cost of the food needed has increased so as to make necessary a deficiency appropriation of \$4.1

million. For the next fiscal year, the cost of purchased foods is estimated at \$19.2 million, compared with \$14.8 million in the 1947 budget estimates. If prices continue to rise that figure may be far exceeded.

"The cost, particularly the food cost, of maintenance of persons on public assistance has likewise increased markedly. Moreover, the number of persons receiving public assistance has increased. This state now contributes as much as 80% of these costs and continuance of this policy will mean that the appropriation for this purpose alone will be increased in the next budget by more than \$50 million.

"Meanwhile, our State employees have received no overall adjustments in their scale of compensation since 1946 and they are being seriously curtailed in their real incomes, especially because of the rise in food costs. In all justice to the State employees I shall recommended an appropriate adjustment in their pay.

"In all construction we find the same drastic increases in costs. You are familiar with the great

need to rebuild the Batavia School for the Blind and your Honorable Bodies have appropriated money to eliminate this fire trap. The estimate for the new Administration and School Building based on 1940 prices was \$713,000 and this was appropriated in 1945. When we first asked for bids, we received not a single bid for the general construction of the project. No contractor wanted to take on the job. Recently we readvertised for bids, stressing the urgent need for this public project. The low bid received was \$2,300,000 or more than three times the 1940 costs and the appropriation.

"Almost everything that the State buys, as with private individuals, has similarly increased in cost."

Now Marache, Sims Co.

LOS ANGELES, CALIF.—The firm name of Marache, Sims & Speer, 458 South Spring Street, members of the Los Angeles Stock Exchange, has been changed to Marache, Sims & Co. There has been no change in personnel.

Harry Ellman Joins Simons, Linburn Co.

Harry Ellman has become associated with Simons, Linburn & Co., 25 Broad Street, New York City, members of the New York Stock Exchange, as manager of the firm's real estate bond department. Mr. Ellman previously was associated with Cantor Fitzgerald & Co., Birnbaum & Co., and Luckhurst & Co., specializing in real estate securities.

N. James Elliott Opens

N. James Elliott is engaging in a securities business from offices at 50 Broad Street, N. Y. City.

NATIONAL BANK OF DETROIT

DETROIT, MICHIGAN

Complete Banking and Trust Service

STATEMENT OF CONDITION, DECEMBER 31, 1947

RESOURCES

Cash on Hand and Due from Other Banks	\$ 345,674,825.38
United States Government Securities	610,253,444.05
Stock of the Federal Reserve Bank	1,500,000.00
Other Securities	55,907,722.73
Loans:	
Loans and Discounts	\$ 172,345,358.56
Real Estate Mortgages	50,718,858.07
Branch Buildings and Leasehold Improvements . . .	1,454,687.77
Accrued Income Receivable	2,985,355.79
Customers' Liability on Acceptances and Letters of Credit	1,919,705.62
	\$1,242,759,957.97

LIABILITIES

Deposits:	
Commercial, Bank and Savings	\$ 1,125,630,951.31
United States Government	13,330,608.76
Other Public Deposits	38,159,142.73
Accrued Expenses and Taxes Payable	\$ 1,177,120,702.80
Income Collected—Unearned	1,294,532.71
Common Stock Dividend No. 27, Payable February 2, 1948	1,158,155.49
Acceptances and Letters of Credit	975,000.00
Reserves	1,919,705.62
Capital Funds:	
Common Stock	\$ 15,000,000.00
Surplus	35,000,000.00
Undivided Profits	4,952,987.51
	\$ 1,242,759,957.97

United States Government Securities carried at \$56,751,605.72 in the foregoing statement are pledged to secure public deposits, including deposits of \$17,459,183.06 of the Treasurer-State of Michigan, and for other purposes required by law.

DIRECTORS

HENRY E. BODMAN	JAMES S. HOLDEN
ROBERT J. BOWMAN	JAMES INGLIS
PRENTISS M. BROWN	WILLIAM S. KNUDSEN
CHARLES T. FISHER	ALVAN MACAULEY
CHARLES T. FISHER, JR.	WALTER S. MCLUCAS
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W. DEAN ROBINSON
NATE S. SHAPERO
R. PERRY SHORTS
GEORGE A. STAPLES
R. R. WILLIAMS
C. E. WILSON

TRUST DEPARTMENT

This bank acts as Trustee, Executor and Corporate Agent

Member Federal Deposit Insurance Corporation

*In addition to this item as shown we have unused Loan Commitments outstanding in the amount of \$5,249,250.32.
**This includes \$3,683,597.27 of trust moneys on deposit in the Banking Department, which, under the provisions of the Banking Law, Section 710-165 of the State of Ohio, is a preferred claim against the assets of the bank.

Member Federal Deposit Insurance Corporation
Member Federal Reserve System

Railroad Securities

It came as a considerable surprise to most sections of the financial community last week when it was announced that the Delaware, Lackawanna & Western had acquired a substantial interest in the New York, Chicago & St. Louis. It had been obvious for some time that there were important interests competing for the stock in the open market ever since the large block has been distributed early in November as a dividend on Chesapeake & Ohio common. Normally such a distribution would have been followed by a fairly protracted period of market pressure. In the present instance, and even though the general market was stagnant, there was no evidence of any such liquidating pressure.

The strength in the stock, which pushed it from the below 30 when the Chesapeake & Ohio distribution was first announced to 50 before the end of the year, naturally brought about considerable speculation as to where the buying was coming from. The air was full of rumors that one or another group was seeking control. It was pretty well established that a Cleveland group closely affiliated with Mr. John Davin, President of the Nickel Plate, was one of the interested parties. This has been borne out by subsequent announcements. As a matter of fact, it is indicated that this group, along with other interests friendly to it, pretty well has working control even though Lackawanna, as has been claimed, may be the largest single holder.

While few, if any, in the financial community had considered the possibility that Lackawanna was buying into the Nickel Plate it is certainly a logical purchase. Nickel Plate is one of Lackawanna's most important connections, interchanging with it a large volume of traffic at Buffalo. When control was thrown wide open by distribution of Chesapeake & Ohio's holdings, and with Chesapeake & Ohio now having a substantial interest in New York Central which competes in some areas with Lackawanna, it was natural for the latter to take steps to protect its own traffic relationships. Moreover, merely on an investment basis the purchase should prove to be a happy one, and an income-producing one once the Nickel Plate is merged with the Wheeling & Lake Erie and the preferred dividend arrears are eliminated in the process.

The announcement of the Lackawanna's purchase also held forth the prospect of eventual merger of the two roads to form another through New York-Chicago and New York-St. Louis route. Such a project may ultimately come to pass but it certainly does not appear to be within the realm of possibility for some years to come at least. For one thing, Lackawanna's present capitalization would not lend itself readily to any merger proposal. Its aggregate debt is quite high and would certainly have to be pared considerably before it would fit into such a combination as the prospective Nickel Plate-Wheeling & Lake Erie. Given a sustained level

of good earnings this could be accomplished in time, but not soon.

Aside from the size of the debt structure its complexity would militate against the possibility of working out any feasible exchange of securities. In recent years Lackawanna has done a comprehensive job of eliminating its many leased line guaranteed stocks. These stocks were exchanged for new bonds. Some of these new bonds are entirely contingent interest bearing, some are fully fixed, and some are part fixed and part contingent. Moreover, even with respect to their contingent interest all of the bonds do not rate equally. Some contingent interest ranks ahead of contingent interest on other lines. In all there are 11 different types of bonds outstanding, excluding equipments and a bank loan.

Another factor complicating the situation is that New York Central has a substantial stock interest (about 7% or 8%) in the Lackawanna. Retention of this interest could hardly be countenanced if Lackawanna and Nickel Plate were to merge. As a matter of fact, it is entirely possible that when Lackawanna tries to get ICC permission to exercise a measure of control over Nickel Plate it will be turned down. An order to trustee the stock is not unlikely and the Commission might even order its sale.

Oklahoma City Bond Club Elects Officers

OKLAHOMA CITY, OKLA.—The Bond Club of Oklahoma City, Okla., in a meeting Jan. 3 elected the following officers for the year: John T. Barry, of C. Edgar Honnold, President.

Wiley W. White, of R. J. Edwards, Vice-President.

Chas. B. Stuart, of Fidelity National Bank, Secretary-Treasurer.

J. Dozier Lowndes, Dead

J. Dozier Lowndes, a pioneer in the investment securities business in Atlanta, died on Jan. 9 after a brief illness. Mr. Lowndes, after graduating from the University of Georgia, entered the employ of J. H. Hilsman & Co. in Atlanta in 1911 and subsequently became the President of that company. He had been with Courts & Co. since 1935.

John P. Lavin Has Joined Staff of Bear, Stearns

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—John P. Lavin has become associated with Bear, Stearns, 135 South La Salle Street, members of the leading national exchanges. Mr. Lavin was formerly with Rawson Lizards & Co. and Riter & Co.

MacNaughton-Greenawalt Adds

(Special to THE FINANCIAL CHRONICLE)

GRAND RAPIDS, MICH.—O. Cary Russell is now with MacNaughton-Greenawalt & Co., Michigan Trust Building, members of the Detroit Stock Exchange.

With Clement A. Evans Co.

(Special to THE FINANCIAL CHRONICLE)

ATLANTA, GA.—Waldo W. Mallory, Jr. and John H. Buckley have become associated with Clement A. Evans & Co., First National Bank Building.

Railroads in Our National Economy

By GUSTAV METZMAN*
President, New York Central System

Leading rail executive reviews accomplishment of our railroads and their important role in our national economy. Points out, because of high wage payments and high material costs, railroad financial strength is seriously threatened, but sees encouragement in recent interim rate increases granted by ICC. Says return on railroad investment is too low, in view of need of new equipment and technical improvement programs. Estimates \$13 billions spent for new rail equipment since end of war.

As we are doing tonight, it is traditional with Americans to face each new year with new hope, new courage, and new confidence. Ever since the landing of the Pilgrims over three hundred years ago, the



Gustav Metzman

nation has had the courage to seek new and wider horizons, confident that they will lead to an ever richer and more stable land in which to work and live. It is in just such a spirit that we of the railroads are starting this year of 1948.

We are proud that you have designated this "Railroad Night." Indeed, we are proud of the opportunity to perform a vital public service. As an ancient Roman teacher once said, "The noblest motive is the public good." That is the basis of railroad service today. And I venture to predict that the golden age of railroad transportation lies before us and not behind us.

The specific goal of the railroads, from year to year, is to provide America with constantly improved rail transportation service. In our efforts to achieve that goal I know that we can count on the continued support and encouragement of such organizations as the Lorain Chamber of Commerce, your civic and traffic associations, industry in general, and city, state and federal governments. Without that support and encouragement, we of the railroads would fall far short of realizing our objective. With it, we can contribute measurably to the attainment of the general goal of us all—an ever richer and more stable land in which to work and live. Only failure to pursue sound principles of free enterprise and public policy can darken the horizon of the bright future that lies ahead of the American nation.

This nation has become great because of its free institutions, established by men who held their freedom more sacred than life itself. Men who did not fear freedom, but having once gained it, held it as a sacred trust. Today, we are the rich inheritors of that freedom; we are the trustees to whom our forefathers have passed the torch of liberty. It is for us to hold it high, that its brilliant rays may brighten a world darkened by fear and distrust; that to those who are losing faith it may be a beacon of new hope, new courage and new confidence.

The great challenge to America, as we enter into this new year, is to remain strong. Indeed, the great challenge to each one of us is to be more zealous than ever in helping to preserve our national strength and economic liberties. By virtue of our world leadership, the future peace and security of the world, in large measure, depend upon the maintenance of a strong America.

But the strength of our nation can be no greater than the strength of its free institutions. And only those can remain strong which are allowed to prosper. Only as we strengthen our old concept of liberty and justice for all can we contribute to the

prosperity of all our free institutions. To give them to some and deny them to others will inevitably weaken the very foundations of our democracy, our economic security, and our national defense.

What Railroads Do

As a railroad man, I am, of course, especially interested in railroads. Tonight, I want to talk about the place of railroads in our national economy and your need to see that they are permitted to earn sufficient revenue to maintain themselves as a strong, self-sustaining part of our social, economic and industrial life. In peace and war, the railroads are the lifelines of national unity and strength. They are the arteries of the nation carrying the lifeblood of industry. Upon them, to a large extent, depend the security and continued progress of America. Indeed, years ago, many communities had their birth in the small construction gangs sent out to extend the railroad bands of iron.

Today, America's railroads serve directly about 60,000 communities.

And let me assure you that the prosperity of these communities is linked inseparably with the prosperity of the railroads that serve them. In very truth, we are dependent upon each other.

For example, let me cite the contribution of railroads in the form of taxes. Right here in the city and county of Lorain, railroad taxes in 1946, totaled almost \$300,000, or 5.4% of your total tax receipts. Yet that is only a small part of the railroads' aggregate tax bill, which in this nation amounts to about one-half billion dollars annually. On the New York Central, for example, payroll taxes alone last year were equivalent to over 76% of our fixed charges. As Cicero once said, "Taxes are the sinews of the State." Can anyone doubt that the railroads are doing much to nourish these sinews?

Wages, too, account for a tremendous amount of money; in fact, the annual wage bill is the largest single item of railroad expense. In 1947, the total railroad payroll approximated \$4½ billions. On the New York Central, wages and payroll taxes account for more than 60 cents of every revenue dollar. And I am happy to say that many of your citizens are among the 1,360,000 employees who each month look to the railroads of the country for their livelihood.

Still another large single item of expense is railroad purchases. Railroads buy a tremendous quantity of the many products which you manufacture. In fact, purchases are made in every county in the United States. Last year railroad purchases amounted to approximately \$1½ billions. I think it may safely be said that the many things railroads buy directly or indirectly affect the livelihoods of more people of our country than do the purchases of any other single industry.

Let us pause for just a moment and consider what these huge expenditures mean in terms of our national welfare. If we add the half billion dollars for taxes, the \$4½ billions for wages, and the \$1½ billions in purchases, together with over six-tenths of a billion dollars in interest and dividends, all of which the railroads are paying out annually, we

find that these vast sums total over \$6½ billions . . . enough to finance the United States' share of the entire European recovery program for 15 months! What does that mean to our nation? It means just this . . . that the railroad industry alone is contributing directly almost 3½% of our entire national income, and indirectly, an even larger percentage.

Can you afford then not to insure the financial stability of so vital a segment of our national economy?

Railroad Financial Strength Threatened

Yet, the financial strength of your railroads is seriously threatened. The paramount need of the railroads today is for sufficient revenues to enable them to survive and progress. Only by assuring the railroads an adequate return upon the investment in those properties devoted to the public service, can that need be fully met.

You may properly ask, "Just what do you mean by an adequate return?" I mean only this. It is that financial return necessary to provide the railroads with a net railway operating income sufficient to pay their fixed charges, and still leave enough net income to pay dividends on their stock, finance improvements, and attract new capital.

Unlike most industries, the railroads have no chest of higher prices to which they can reach immediately when their costs go up. The railroads cannot expect to buy new equipment, construct new stations, constantly improve their right-of-way, and do the countless other things that the public demands and rightly expects without having a steady flow of capital funds. Ever since railroads became "going concerns," private sources have supplied the capital needs of the railroad industry. But railroads can attract such capital only if they are allowed to prosper.

This fact was fully recognized over thirty years ago, when Commissioner Daniels of the Interstate Commerce Commission stated that "A living wage is as necessary for a railroad as for an individual." As the productivity of labor must go hand in hand with the wages of labor, so the wages of corporate investment must go hand in hand with the productivity of that investment. I do not think there is a single person in this room who will question the vital productive service which the railroads have performed for well over 100 years, are performing today, and intend to perform in the years ahead.

Because, in 1920, Congress, too, felt that the railroads needed a "living wage," it added Section 15a to the Interstate Commerce Act. Let me quote a portion of that section:

"In the exercise of its power to prescribe just and reasonable rates, the Commission shall give due consideration, among other facts . . . to the need, in the public interest, of adequate and efficient railway transportation service at the lowest cost consistent with the furnishing of such service; and to the need of revenues sufficient to enable the carriers, under honest, economical, and ef-

(Continued on page 23)

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Newly Elected Officers of the Economists' National Committee on Monetary Policy for 1948

The following officers of the Economists' National Committee on Monetary Policy, office One Madison Avenue, New York City, were elected for the year 1948:



Benj. M. Anderson



Walter E. Spahr



J. W. Bell



W. W. Cumberland



Leland Rex Robinson

President: Dr. Benjamin M. Anderson, Connell Professor of Banking, University of California at Los Angeles.

Executive Vice-President and Treasurer: Dr. Walter E. Spahr, Professor of Economics, New York University.

First Vice-President: Dr. James Washington Bell, Professor of Economics, Northwestern University.

Vice-President and Assistant Treasurer: Dr. Leland Rex Robinson of New York City, and a member of the office staff.

Assistant Treasurer: Dr. William W. Cumberland of Ladenburg Thalmann & Co., New York City.

The Committee's British Correspondent is Francis W. Hirst, one-time editor, "The Economist" (London); its Canadian Correspondent is Dr. F. Cyril James, Chancellor, McGill University.

The Committee, at present composed of 74 members, was organized in 1933. Its first President was Dr. Ray B. Westerfield of Yale University; its second was the late Dr. Edwin W. Kemmerer of Princeton University; its third was the late Dr. and Brig. Gen. Leonard P. Ayres of the Cleveland Trust Co. Dr. Anderson, the fourth member to serve as President, is beginning his second year in that office.

Dr. Sakolski Honored

A luncheon honoring Professor Aaron M. Sakolski, noted economist and statistician who retired recently after 35 years of teaching, the last 18 of them at the City College School of Business and Civic Administration, will be held today at noon at the Gramercy Park Hotel, 52 Gramercy Park North.

Professor Sakolski, who is presently serving as Assistant Editor of the "Commercial and Financial Chronicle," will be given a scroll honoring his "years of faithful and conscientious devotion to the welfare of the college." Dr. Thomas L. Norton, Dean of the school, will make the presentation. Dr. Arthur E. Albrecht, Chairman of the school's Business Administration department, will preside.

A native of Baltimore, Dr. Sakolski was graduated from Syracuse University in 1902 and received his PhD at Johns Hopkins University in 1905. He taught at Johns Hopkins University, New York University, Union College and at the American Institute of



A. M. Sakolski

Banking before coming to City College in 1929.

One of Dr. Sakolski's most outstanding contributions in economics was his work in the government service. The author of numerous articles and books on finance and economics, Dr. Sakolski was an early member of the American Economic Association.

A. E. Weltner & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—Leonard W. Brown has become associated with A. E. Weltner & Co., 21 West Tenth Street.

J. Streicher Co. Admits

J. Streicher & Co., 2 Rector Street, New York City, members of the New York Curb Exchange, have admitted Judson L. Streicher to partnership.

With J. H. Hilsman & Co.

(Special to THE FINANCIAL CHRONICLE)

ATLANTA, GA.—John B. Jackson Jr. has been added to the staff of J. H. Hilsman & Co., Citizens & Southern Building.

The Railroad Outlook

By ARTHUR JANSEN*

Railroad Specialist and Partner, E. W. Clucas & Co.

In analyzing situation of rails, Mr. Jansen estimates net income for 1948 at between \$750 to \$800 millions leaving about \$500 million after payment of taxes. Foresees continuation of high traffic level, heavy expenditures for improvements, and increased operating efficiency. Warns of probability of another round of wage increases, but sees likelihood of counterbalance in further rate increases. Holds Dow-Jones rail averages will not get beyond 58 against present 53, which offers percentage-wise more advancement than any other group. Sees possibility of operating costs levelling off, and analyzes market prospects of certain rail stocks and bonds.

In talking to you today, what I am going to do is divide my discussion into several component parts, consisting of: (1) the current earnings outlook; (2) a comment on the market outlook; (3) some of the longer term aspects of the situation, and (4) specific mention of individual securities which may perhaps be of interest.

To go back to the first topic, that of the current earnings outlook. As a result of the latest 10% temporary freight rate increase granted by the Interstate Commerce Commission

would be increased approximately another \$800 millions; if they were able to carry this through to net income after Federal income taxes, it would amount to, roughly, another \$500 millions of net income. This theoretically would lift the earning power up to about \$1.2 billion. That would be pretty sizable if it should work out that way.

The Interstate Commerce Commission, I am very pleased to say, probably has shown a much better realization of the need of the railroads for additional revenues than most people had suspected they might. There are several factors behind that, I believe. The most important, I have felt that for some time, is that the ICC has recognized more than almost anybody else in the country what an important part the railroads played in enabling the United States practically to carry the world through to victory through its wonderful transportation system, carrying war materials and troops to the ports. The Commission, I am confident, also recognizes how absolutely essential it is to keep the railroad industry strong.

The railroad industry has a tremendous need for new cars and new locomotives and if there were any possibility that we might get into a third world war at some time in the future, some years hence, we certainly would want to go in with a strong railroad system, well equipped with locomotives and freight cars. The only way that can be reasonably well assured is to let the railroad industry earn some money, and I think the ICC realizes that.

I also suspect very strongly that some of the other powers that be

in Washington, in military circles, have realized it too, and emphasized it in talks with members of the Commission. The way the Commission worded its latest temporary increase was sort of to imply that would be about the minimum the railroads could count upon when the final decision is handed down. There is therefore justification for feeling that some further rate increases may be authorized. In any case what has been authorized in the form of the temporary increases may be viewed as at least the minimum permanent increases.

I think it is also interesting to note that in handing down the two temporary decisions, the Commission did not give anything extra to the eastern railroads. These roads, in the petition for permanent rate increases, are asking for larger increases than the railroads of the rest of the country are seeking. I am inclined to think that when the final decision is handed down, the Commission will give something extra to the Eastern railroads. They have special problems of their own and special treatment seems almost essential for some of them.

Certainly, the Commission can not overlook the inability, for instance, of the Pennsylvania Railroad to make a satisfactory living at the present time. So long as the Pennsylvania Railroad can not earn a satisfactory living, I think it is almost a foregone conclusion the Commission will take that into consideration, and be a little more liberal with the Eastern railroads than with the rest of the country.

The current annual level of net income of about \$750 millions

(Continued on page 22)



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The issues of securities in which Otis & Co. participated as a principal underwriter in 1947 totalled more than \$1,800,000,000, and included the highest grade bonds, investment preferred stocks, and both investment and speculative common stocks.

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Mutual Funds

By HENRY HUNT

Selectivity in the Market

During the past year, as measured by most composite common stock averages, the market at the year-end showed virtually no change. However among individual stock groups, the market as usual showed wide selectivity. Furthermore, of the 29 major stock groups tabulated, only eight finished the year with advances, the rest finishing lower.

The following table, compiled by Leslie Gould, Financial Editor of the New York "Journal American," indicates that the odds against an investor's picking a profitable group a year ago were better than 2½ to 1 against him.

Industry, 1947	
Farm Implement	+26.4
Motors	+17.9
Electrical Equipment	+11.6
Steels	+9.5
Rails	+4.6
Chemicals	+2.4
Packing	+1.4
Oils	+1.2
Glass	-2.3
Coppers	-2.5
Motor Accessories	-3.3
Building	-4.3
Mining	-9.1
Golds	-9.5
Rail Equipment	-10.1
Tobaccos	-11.5
Communications	-12.2
Sugars	-12.5
Mail Order	-13.4
Can Companies	-13.6
Rubbers	-15.1
Aviation Manufacturing	-15.5
Foods	-15.5
Utilities	-19.8
Merchandise	-20.0
Drug Companies	-23.9
Airlines	-24.1
Liquors	-27.7
Amusement	-35.1

A year ago prophets of a pending business recession were as numerous as beach sitters at Coney Island on a hot summer Sunday. Nearly as prevalent were analogies between the 1929 crash and the 1946 break in stock prices with the obvious inferences in 1947. Harking back to the depression days of the early '30s, the 1947 investor would have recalled that in 1930 the amusement industry made more money than it did in 1929; that stocks of gold mining companies sold higher in '32 than they did in 1929. On the basis of this historical precedent, the 1947 investor might have logically selected amusement and gold stocks as his "best bets for 1947."

"One of the most perplexing problems facing American industry today is the rising cost of doing business. It just takes more dollars to buy the same amount of goods now than it did a year ago, and for this reason we are trying to keep our investments in companies which are in a strong financial position. We believe that companies must be strongly financed if they are to participate fully in the record volume of business which is now being done, and, at the same time, be in a position to pay fair dividends to

their stockholders. We are fearful that many companies in weak financial condition, as a result of rising costs and consequent higher valued inventories, are going to be obliged to retain their earnings rather than pay them out to the shareholders in the form of dividends. Moreover such companies may not be prepared to withstand any marked drop in prices and resultant inventory losses.

"Further, it is our policy under present conditions to keep our stock investments in companies which are currently paying dividends. Were we in the latter stages of a cyclical decline in business activity, we might favor non-dividend paying securities if we believed they would soon resume payments. However, we do not favor non-dividend paying securities when business activity is at a high level and most successful companies are able to maintain or even increase dividends."

New Gag

If you enjoy a good gag, try stuffing a handkerchief in your mouth.

"Jersey" Underpriced?

C. Norman Stabler, Financial Editor of the New York "Herald Tribune," recently commented on the apparent market anomaly of the common stock of Standard Oil of New Jersey as follows: "The method, or lack of method, which the stock market uses to place a value on securities sometimes give rise to questions which are not readily answered. A case in point is the present market quotation for Standard Oil of N. J. and that of three of its subsidiaries, Humble, Creole, and Imperial.

"Each share of Jersey has an equity in the three subsidiaries as follows: .47 shares of Humble, .92 shares of Creole and .69 shares of Imperial.

Equity in Humble, at 77 is worth \$36.20
Equity in Creole, at 41 3/4 is worth 33.41
Equity in Imperial, at 12 1/2 is worth 8.62

\$83.23

"Standard Oil of N. J. sells at 77, against this indicated equity in three subsidiaries of 83 1/4, and no value is being placed, for the purposes of this comparison, on its other vast investments and assets. It would appear either that the stock market has overvalued Humble, Creole, and Imperial or has undervalued Jersey."

Indoor Sports

We like the story in the current issue of the "Readers' Digest" about the GI who was taking his first exam in Ancient History at college. To the question: "Name two sports of ancient times" his answer was: "Anthony and Cleopatra."

We also like the one about the summer visitor who said to a young lady: "I'm a neighbor of yours as I have rented the cottage directly across the lake." Her re-

sponse was: "Hope you'll drop in some time."

To Address Boston Securities Salesmen

Douglas Laird, Vice-President of National Securities & Research Corporation and author of "Getting Sales Results" will address the Boston Investment Club next Tuesday, Jan. 20, at 7:30 p.m. The subject of his talk will be "Is Salesmanship Essential to the Security Business?"



Douglas Laird

The principal aim of the Boston Investment Club which was formed shortly after the late war is to help young salesmen, especially GI's, to obtain a better understanding of the security business.

Rollin M. McConnell Joins Bache & Co.

(Special to THE FINANCIAL CHRONICLE)
DETROIT, MICH.—Rollin M. McConnell has become associated



Rollin M. McConnell

with Bache & Co., Penobscot Building. He was formerly a partner in Baker, Weeks & Harden.

Lord, Abbott Opens New Orleans Office

NEW ORLEANS, LA.—Lord, Abbott & Co. Inc., sponsors of American Business Shares, Inc., Affiliated Fund, Inc., and Union Trustee Funds, Inc., announce the opening of a New Orleans office at 348 Baronne Street, under the direction of Walter R. Scott, Vice-President. This new regional headquarters will serve securities firms in Southern States who distribute shares of the investment companies under Lord, Abbott sponsorship.

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CHICAGO

LOS ANGELES

January 12, 1948

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The government securities market continues under the influence of developments that are intended to slow the inflationary use of bank credit. . . . The latest move in the chain of events is the raising of the rediscount rate to 1 1/4%, which should increase slightly the cost of borrowing. . . . The government market, however, appears to have fully anticipated this change. . . . Prices of Treasury obligations firmed somewhat with the passing of the old year, and quotations in certain instances advanced as much as a half point above support levels. . . . This was due to minor buying of intermediates and longs by investors and traders, the sold-out condition of the market, and the small floating supply of key issues. . . . The price recovery has meant very little so far, because purchasers of government securities are too confused to make any sizable commitments in the middle- and longer-term obligations. . . .

Reports that the rediscount rate would be raised took what boldness there was in the government market out of it, and prices slipped back close to the support points. . . . The mental attitude of those that make up the money markets and the government market is so jumpy and uncertain that it will likely be some time before they are going to do much more than stay very close to shore. . . . This means cash and shorts, until they are sure that prices of intermediate and long governments have reached levels that are going to hold. . . .

A DIFFICULT JOB

Confusion and uncertainty have always had important places in the repertoire of the money managers, and they no doubt hope that they will continue to be effective this time as in the past. . . . Admittedly the job the monetary authorities have to do is a very difficult one, to say the least. . . . Playing for time, hoping, as well as credit restrictive measures within limits of low money rates, is about all that is to be expected for the time being. . . . If this pattern of attacking the inflationary trend should work, then considerable degree of success will have been attained in debt management. . . .

It seems as though the monetary authorities hope to retard the inflationary loan trend by creating uncertainty and confusion in the money markets. . . . By making it more difficult for marginal borrowers to obtain credit, some of the froth should be taken off the loan picture and in time this should have an effect upon the trend of economic conditions. . . . Corporations, states and municipalities might defer borrowings if conditions in the bond market are so unsettled that securities are not readily taken at favorable rates. . . .

TEST PERIOD AHEAD

A tighter money picture should result from the redemption of Federal-held debt and this, along with an uncertain bond market, could have an influence upon bank and non-bank investors' operations in the loaning field. . . . Whether the policy that appears to be evolving will work is something that time alone will tell. . . . The next three months will be the test period. . . . While there seems to be little doubt that the powers that be have the weapons to stop the inflationary trend, the feeling appears to be that there should not be an operation if it is going to kill the patient. . . .

It is being pointed out that there are many other forces which must be taken into consideration in the inflationary spiral, that are not monetary and cannot be remedied by pure monetary measures. . . . This is also a reason why the authorities are likely to feel their way in what action is taken in the money markets, in the move against inflation. . . .

TRUST BUYING

Government agencies, by reason of their action in the government securities markets, are taking on added importance as regulators of the flow of funds for investment purposes. . . . From March to October of last year these accounts were sellers of marketable Treasuries, because there was a great demand for securities. . . . The funds seeking investment were larger than the supply and the agencies put obligations into the market to satisfy the demand. . . . Since November of 1947, there has been a great demand for funds, and in order to take care of some of this need, government agencies have been buyers of Treasury obligations. . . . This seems to be one phase of debt management that will be more important in the future as conditions assume more normal proportions as they will some day. . . .

Purchases of marketable issues by government agencies during December were reported to be somewhat under \$800,000,000 which with the \$220,000,000 bought in November, would mean that about \$1 billion was supplied the money markets in the last two months of last year in the great rush of liquidity. . . . Since approximately \$1,800,000,000 of securities were sold earlier in 1947, the trust accounts were still sellers on balance last year. . . . If funds for loans should continue sizable in 1948, the agencies could supply a good part of it, as they did last year. . . . This would shift savings from the government to private needs, and the debt from the public to the government.

FHLB Notes on Market

An offering of \$97,000,000 Federal Home Loan Banks consolidated notes, 1 1/4% series A-1949, non-callable, was made Jan. 8 by the Federal Home Loan Banks through Everett Smith, fiscal agent. A nation-wide selling group of securities dealers will assist in the offering. The notes, to be dated Jan. 20, 1948 and to mature Jan. 20, 1949, were priced at 100 and accrued interest.

Proceeds from the sale of the notes will be used to retire \$36,-

700,000 series B-1948, 1 1/4% consolidated notes dated Dec. 1, 1947, maturing Feb. 16, 1948 and to make advances to member institutions, consisting of savings and loan associations, savings banks and insurance companies, to meet their home financing and other requirements. The series B notes were issued to supply the temporary needs of the banks pending the completion of the present offering.

The new series A notes are the joint and several obligations of the 11 Federal Home Loan Banks.

Mark Sullivan Forgets Cash Bal. in Treasury

In the Jan. 14 issue of the "Herald-Tribune," Mr. Mark Sullivan's column featured two headlines reading, "Big Reduction in National Debt Held Bright Feature in Budget" and "Mark Sullivan Notes a 10% Cut Since War as a Cheering Fact at a Time When U. S. Is Facing Huge Outlays to Aid European Recovery."

Our able contemporary, Mark Sullivan, develops his reasons for the "National Debt Declines," viz.:

"On July 1, 1946, the national debt was \$269,000,000,000. That was a year following the end of expenditures for carrying on the war. In the two past fiscal years, with the one covered by the present budget, ending July 1, 1949 the debt will have been reduced to \$246,000,000,000. Assuming that the reduction contemplated in the present budget is not frustrated by unforeseen conditions, we shall have made, in three postwar years, a reduction of nearly 10% in the national debt."

With all respect for the opinion of this veteran writer, we believe that Mr. Sullivan has overlooked the cash holdings in the Treasury's general fund.

What Mr. Sullivan has done is first to assume that the \$7 1/2 billion mentioned in President Truman's message would actually materialize and be applied to debt reduction. From past experience this has not been the case even though receipts had exceeded all expectations.

Second, Mr. Sullivan does not take into consideration the true state of the Treasury's condition by not taking into his calculations the cash on hand in the general fund.

If the Treasury has large amounts of cash on hand which could be used to retire maturing issues, it is only right in talking of "reduction in the U. S. debt" to deal with the net debt—that is, the gross debt less cash on hand—instead of with the gross debt as Mr. Sullivan has done. This is especially true as to the period that Mr. Sullivan is covering, as on June 30, 1946 the Treasury had in its general fund over \$14 billion, while on Dec. 31, 1947 it reported on hand only about \$3 billion.

If the net debt figures are used, we find that the debt (even after assuming that President Truman's reduction of \$7 1/2 billion will take place) will be reduced from the June 30, 1946 figure of \$255,185 million to \$246,302 million on June 30, 1948, or 3 1/2%.

The actual fact is that the net debt at the end of 1947 was \$253,802 million, or an actual reduction of only 1/2 of 1%. Even if the guaranteed debt is brought into the picture the reduction is only 7/10ths of 1%. What a different picture this is from the 10% Mr. Sullivan presents to the public.

Joins First Securities Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Richard A. Wernecke has become affiliated with the First Securities Co. of Chicago, 134 South La Salle Street, members of the Chicago Stock Exchange. He was formerly in the trading department of Brailsford & Co.

With Holley, Dayton & Gernon

(Special to THE FINANCIAL CHRONICLE)

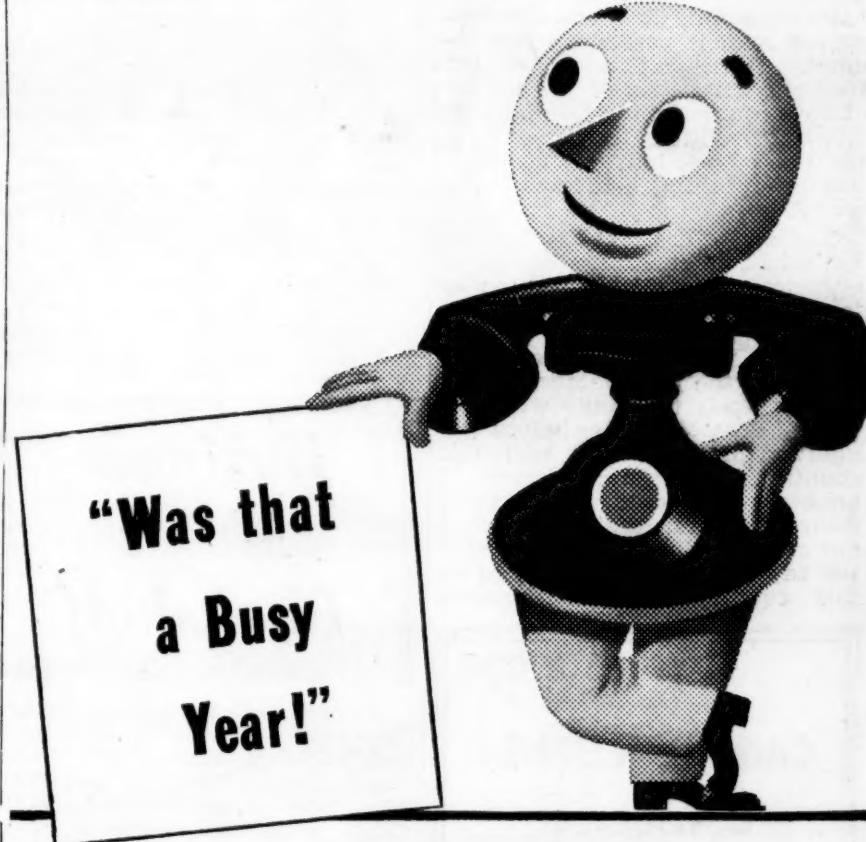
CHICAGO, ILL.—Joseph A. Kennedy has become associated with Holley, Dayton & Gernon, 105 South La Salle Street, members of the Chicago Stock Exchange. He was formerly with Cruttenden & Co., and Mason, Moran & Co.

Investment Trust Men Meet in Minneapolis



Bert C. Gamble, a Director of Investors Syndicate; Arthur Wiesenberger, well-known author and publisher of "Investment Companies," the annual Bible on investment trusts, and E. C. Crabb, President of Investors Syndicate, snapped at a recent pow-wow on investment trust operations at the headquarters office of Investors Syndicate in Minneapolis.

1947



We completed the largest construction program in our history—more than twice as large as any pre-war year.

A billion dollars was put into new facilities for the expansion and improvement of your telephone service.

2,700,000 new telephones were added to the Bell System—more than 10,000 every working day.

13,000,000 more calls a day were handled—a new record.

The telephone story of 1947 is one of expanding business, extraordinary building of new facilities, rising costs and higher payrolls.

It is the story of unceasing effort to meet the continuing demands for more and better telephone service.

BELL TELEPHONE SYSTEM



Canadian Securities

By WILLIAM J. MCKAY

The remedies for and the probable results of "Austerity to the North" are a current source of considerable publicity and controversy south of the border. Conjectures range from complete political as well as economic integration of Canada with her great southern neighbor, to Canadian economic nationalism with the industries of the Dominion competing strongly in world markets with those of this country.

Discussion along these extreme lines is certainly highly stimulating, but the future direction of Canadian economic policy will undoubtedly be strictly in character—a sane and cautious approach to an intelligent solution which, when decided upon, will be implemented with vigor and ability. As a result, a workable and constructive path is likely to be found which will be far from either of the extremes previously mentioned.

Canadian efforts are already directed towards a co-ordinated integration of the economies of the two countries, an objective which is both logical and desirable in the mutual interest. Never before, however, was the Canadian political atmosphere less favorable than now for any abandonment of full national sovereignty. Canada has long passed the stage of colonial dependency and as a result of the statesmanship of her leaders and the virility of her people, has painstakingly attained the status of a world-respected sovereign power without offense to the sensibilities of the Mother Country or her powerful southern neighbor. It is, moreover, in the vital interests of both Britain and this country that the independence of this dynamically expanding democracy be preserved and, if possible, strengthened. Possessing many of the best characteristics of the people of both countries, the Dominion is admirably fitted to preserve a healthy balance between the great English-speaking nations of the world.

The conjecture that the Dominion might embark on a course of economic nationalism appears also to be well wide of the mark. In the first place, although Canadian industry has made enormous strides in the past decade, it still has to reach the stage where it can fill domestic needs before any question of competition with this country for foreign markets could be even considered. It does not follow, however, that Canada will not seek a policy that will aim at the removal of undue reliance on this country for manufactured

goods and machinery. In addition it is likely that Canadian industry, benefiting from both U. S. and British technical experience will ultimately place on the world markets Canadian products that will compete on their own merits. A first step in this direction has already been taken by the incorporation of the British Rolls-Royce engine in a U. S. air-frame in the production of the successful "North Star" passenger plane. In view, also, of Canada's eminence in the field of light metals and metal-alloys, there is tremendous scope for the emergence of a Canadian light automobile that would have a special market non-competitive with the U. S. automobile industry.

For immediate purposes, however, Canada's economic importance lies in her enormous wealth of natural resources that are beginning to assume greater significance than ever before. With the spectre of vital shortages in the foreseeable future dimming the prospects for the continued expansion of U. S. industry, wise statesmanship is now necessary on both sides of the border. Future industrial reserves for U. S. industry are conveniently located north of the border as well as ample means for foreign relief. How much longer must we wait for the inspiration of a "Truman-King" plan for world economic rehabilitation and the conservation of U. S. resources?

During the week there was a resumption of activity in the external section of the bond market and an important block of high-grade provincial and municipal issues changed hands at prices well above the recent lows. The internals also strengthened in sympathy with the unusual buoyancy of free funds. Among the stocks, the oil issues still continued as market leaders following further promising discoveries in various parts of the Dominion.

Business Man's Bookshelf

Agricultural Economics Series: "Marketing Problems and Policies," Twilex, \$2.50—cloth, \$3.25; "Agricultural Problems and Policies," Twilex, \$2.75—cloth, \$3.50; "The Farmer and Economic Progress," Twilex, \$4.00—cloth, \$5.00; "Syllabus to Accompany the Farmer and Economic Progress," Twilex, \$1.25—cloth, \$2.00—written by Henry F. White, Ph.D., head of the Division of Social Sciences of John Brown University—John Brown University Press, Siloam Springs, Arkansas.

Mainspring—The story of human progress and how not to prevent it—based on the general theme of Rose Wilder Lane's book "The Discovery of Freedom"—Talbot Books, 6432 Cass Avenue, Detroit 2, Mich.—paper \$1.00 (lower price in quantity orders).

Nickel Plate Road, The—The History of a Great Railroad—Taylor Hampton—The World Publishing Company, 2231 West 110th Street, Cleveland 2, Ohio—cloth, illustrated—\$3.75.

CANADIAN BONDS

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Monetary Economists' Recommendations for Combating Inflation

Fifty-three members of Economists' National Committee on Monetary Policy lay down 18 points, foremost of which is reduction of both government expenditures and taxation. Also urges return to gold standard, with some reservations noted.

In a statement released by the Economists' National Committee on Monetary Policy, of which Dr. Walter E. Spahr of New York University is Executive Vice-President, 53 economists signed a list of 18 recommendations for combating inflation in the United States. The

full text of the statement, together with the recommendations and the signatures follows:

The Economists' National Committee on Monetary Policy pointed out at its inception in 1933, and at various times since, that the stage was be-

ing set by a variety of governmental monetary and spending policies for what is commonly called "inflation"—more specifically, a relatively rapid depreciation in the purchasing power of our dollar in terms of goods and services.

Now that these policies, combined with those related to the expansion in note and deposit currency and other economic distortions that occurred during the war, are revealing some of their logical consequences, there is considerable concern, in government circles as well as outside, as to what should be done to arrest or to minimize what is now being widely recognized as an unhealthy trend of events in our economy. Once so many seeds of "inflation" have been sown and cultivated with such persistency, in peacetime as well as in war, the problems of arresting or counteracting the consequences sometimes become exceedingly difficult and complicated. Sometimes the consequent forces become so strong that they tend to run their natural course to their unfortunate end despite efforts to counteract them.

It was because of the world's experiences with results flowing from the employment of "inflationary" procedures that members of this Committee, from time to time, have protested and issued warnings against the pursuit of a course, when not required by the necessities of war, that opened the way for, and invited, consequences that might be seriously harmful, if not disastrous, to our economy.

There is, apparently, no easy way to arrest the "inflationary" tide now running with so much force in this country. The attack on it requires action on a variety of fronts since its causes are numerous.

We, the undersigned, members of the Economists' National Committee on Monetary Policy, recommend the following:

(1) A radical reduction in government expenditures; in particular, abandonment of all public work projects except those of an emergency nature.

(2) A reduction in taxes.

(3) A reduction in the Federal debt.

(4) A return to a gold-coin monetary standard, and a revision of our monetary laws, in order to return to the people of the United States greater control over the government's use and abuse of the public purse and to reverse the pronounced trend in this country toward a governmentally-managed economy.

(5) An increase in production, productive effort, and efficiency of all productive agents.

(6) Abandonment of make-work, featherbedding, and other

devices for collecting pay for work not done.

(7) The maintenance of relatively low inventories and the avoidance of hoarding by business enterprises.

(8) The retention by business enterprises of a large percentage of earnings for improvement and expansion of their businesses, and a revision of our tax laws to permit such retention without penalty.

(9) The cautious use of credit, and an increase, where possible, of margins of safety against extensions of credit.

(10) That sellers make special efforts to maintain the lowest possible prices consistent with a low margin of profit as a means of forestalling a possible large price decline and severe liquidation.

(11) Reduction in tariffs and other restrictions to trade, domestic and foreign.

(12) A recognition on the part of our Federal Government that it cannot buy large amounts of already relatively scarce supplies and at the same time not contribute to high or higher prices.

(13) Abandonment of Federal subsidies except where matters of national protection—in air, army and naval forces—are involved and also repeal of price-parity and price-maintenance laws.

(14) That the Government not confuse symptoms with causes and that it not attempt to control symptoms since such "controls" tend to conceal causes, distort the economic picture, and perpetuate accentuate, and foster new, economic maladjustments.

(15) That people not buy what they do not need and that they not borrow to buy things they can do without.

(16) That the apparent tendency to loan too freely and too much to foreign countries be sharply curbed.

(17) That interest rates be permitted to find their natural levels.

(18) That the Board of Governors of the Federal Reserve System give greater attention to the type of administration of our monetary and credit structure that should foster more harmonious relationships in the various segments of our economy.

Signatories

(Numbers in parentheses after names of signers indicate items regarding which they have reservations or to which they are opposed, fully or in part.)

Eugene E. Agger (2, 4, 16, 17), Rutgers University; Benjamin M. Anderson (10, 18), University of California at Los Angeles; Charles C. Arbuthnot (13, 16, 18), Western Reserve University; James Washington Bell (2, 4), Northwestern University; Claude L. Benner (2), Continental American Life Insurance Co.; William A. Berridge, Metropolitan Life Insurance Co.; Ernest L. Bogaart (2), Lehigh University; J. Ray Cable, Missouri Valley College; Wilbur P. Calhoun (2), University of Cincinnati; Arthur W. Crawford, Chamber of Commerce of the United States; William W. Cumberland, Ladenburg, Thalhann & Co.; Rev. Bernard W. Dempsey, S.J., St. Louis University; Charles A. Dice (2, 3, 17, 18), The Ohio State University; D. W. Ellsworth (7, 8, 10, 15), E. W. Axe & Co., Inc.; Fred R. Fairchild, Yale University; Charles C. Fichtner (10), Buffalo, N. Y.; Major B. Foster (18), Alexander Hamilton Institute and New York University; Roy L. Garis (16), University of Southern California.

Lewis H. Haney (4, 7, 8, 15), New York University; E. C. Harwood, American Institute for Economic Research; Hudson B. Hastings (2, 4, 11), Yale University; William F. Hauhart, Dean Emeritus, Southern Methodist University; Henry Hazlitt (2), Newsweek; John Thon Holdsworth (2), The University of Miami; Montfort Jones (1), The University of Pittsburgh; Donald L. Kemmerer (5, 6, 7, 8, 9, 10, 11, 12, 14, 15, 16, 18), University of Illinois; William H. Kleckhofer, The University of Wisconsin; Frederic E. Lee, University of Illinois; J. L. Leonard, University of Southern California; Philipp H. Lohman (2, 4, 17), University of Vermont; A. Wilfred May (18), Executive Editor, The Commercial and Financial Chronicle, N. Y. C.; Roy W. McDonald (14), Donovan, Leisure, Newland, Lumbard and Irvine, N. Y. C.; David H. McKinley (2, 6, 10, 14, 15), The Pennsylvania State College; Frank Parker, University of Pennsylvania.

Clyde W. Phelps, University of Southern California; Chester A. Phillips, The State University of Iowa; Charles L. Prather (2, 4), The University of Texas; Howard H. Preston (2, 4, 16, 17), University of Washington; Leland Rex Robinson (2, 16), 2 West 45th Street, N. Y. C.; R. G. Rodkey, University of Michigan; Olin Glenn Saxon (10), Yale University; Carlton A. Shively, The New York Sun; Walter E. Spahr, New York University; William H. Steiner, Brooklyn College; Charles S. Tipper (2, 4, 16, 17), Mercersburg Academy; Alvin S. Tostlebe (2, 4, 17), The College of Wooster; James B. Trant (2, 8, 17), Louisiana State University; Rufus S. Tucker (2, 8, 11, 16, 18), Westfield, N. J.; Russell Weisman, Western Reserve University; Nathaniel R. Whitney (10, 18), The Procter and Gamble Co., Cincinnati; Edward Wiest, College of the City of New York.

National Association of Securities Dealers Elects L. Raymond Billett Chairman

L. Raymond Billett, Chicago, was elected Chairman of the Board of Governors of the National Association of Securities Dealers, Inc.



L. Raymond Billett Joseph L. Ryons Robert C. Kirchofer W. Rex Cromwell

Mr. Billett is a partner of the investment banking firm of Kebbon, McCormick & Co. Retiring Chairman of NASD is Herbert F. Boynton, of H. F. Boynton & Co., Inc., New York City.

Other officers elected were: Vice Chairman, Joseph L. Ryons, of Pacific Company of California, Los Angeles; Robert C. Kirchofer, of Kirchofer & Arnold, Inc., Raleigh, and Treasurer, W. Rex Cromwell, of Dallas Rupe & Son, Dallas. Wallace H. Fulton, Washington, was elected Executive Director.

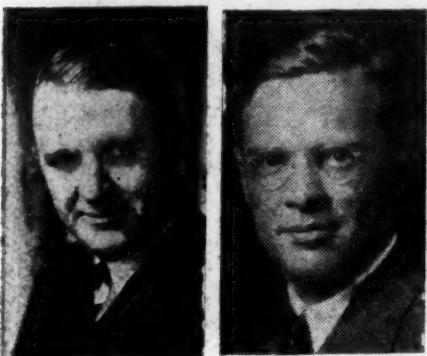
The following seven new Governors took their places on the

Board: Philip L. Garret, Garret, Gammons & Co., Inc., New York; Clement A. Evans, Clement A. Evans & Co., Inc., Atlanta; S. Davidson Herron, The First Boston Corporation, Pittsburgh; Francis Kernan, White, Weld & Co., New York; John D. McCutcheon, John D. McCutcheon & Co., Inc., St. Louis; John J. Sullivan, Bosworth, Sullivan & Co., Denver; and Eaton Taylor, Dean Witter & Co., San Francisco.

Canadian Credit Agreement Signed

Arrangements completed by Export-Import Bank for \$300 million loan to Canada, one-half of which is to be for purchase of goods in U. S. Canada's adverse trade balance with U. S. mounts.

On Jan. 8, Douglas Abbott, Canadian Minister of Finance, and William McC. Martin, Jr., President of the Export-Import Bank, affixed their signatures to an agreement whereby Canada is to obtain a line of credit up to \$300,000,000, one-half of which is allocated to the purchase of machinery and equipment in the United States. The credit is to be available until Dec.



Hon. D. C. Abbott Wm. McC. Martin, Jr.

31, 1948 and the interest charge is fixed at 2 1/2% annually, with an additional "commitment" charge of 1/2% per year. Repayments of the amounts borrowed are to extend over a period of five years. The agreement provides that if the Canadian Government borrows from private sources in this country for a term of less than five years, the amount of such borrowing is to be deducted from the amount of the \$300 million credit.

The Canadian credit was under consideration by the Export-Im-

port Bank since last November, when the Canadian Government began to make strenuous efforts to support the declining value of the Canadian dollar in the U. S. and to close the gap between her imports and her exports to U. S.

Commenting on the Canadian dollar problem, Sidney G. Dobson, President of the largest Canadian Bank—the Royal Bank of Canada—pointed out that the adverse exchange situation of Canada was an element of danger to United States stability and he condemned the tariff barriers of both countries as "illogical." He added:

"We have many natural resources not to be found in the United States, and many resources which are becoming scarce in that country."

"Canada is first in the world in the production of nickel, asbestos, platinum, radium and uranium, all of which are minerals of the greatest economic and strategic importance. * * *

"In addition, of course, there is a very close geographical and financial relationship between Canadian and American industry. United States businessmen have invested \$5 billions in Canada, a great deal of it in branch plants and subsidiaries."

"As the new year opens, the business outlook appears definitely favorable and the underlying strength of the business picture would appear to preclude a sizable recession, such as was so freely predicted a year ago," the New York Stock Exchange firm of H. Hentz & Co., in its annual review and forecast for 1948.

"The year 1947 was one of unmistakable national prosperity, completely refuting the opinions expressed in some quarters earlier in the year that a business recession was imminent," the firm points out. "No matter what yardstick is used—the Federal Reserve production index, national income, disposable income, farm income, corporate profits or employment, 1947 was a banner year for the American people and American business."

In forecasting the business outlook at this time, the firm finds that "the key considerations are two-fold, namely, (a) consumer purchasing power, and (b) capital expenditures by industry."

In the case of consumer purchasing power, "all the evidence points to its continuance at a high level." In the case of capital expenditures, "the present programs of leading companies in the utility, railroad, chemical, oil and other industries provide assurance that capital expenditures will remain at a very high level."

The firm finds that "the principal handicaps to the security markets appear to be psychological. Fear of war, fear of depression, fear of inflation, fears of an indefinite character—all of these have been present during the past 18 months. The public has naturally looked to Washington for leadership and strong action to resolve these uncertainties. Aside from a clear and firm foreign policy, however, there has been little evidence of leadership, but rather an indeterminate and ambivalent program in respect to domestic issues, with its attendant contribution to public confusion. Nevertheless there are signs of a coming change in public psychology. The market turned down some 18 months ago and since capital is never idle for long periods in prosperous times but in the end seeks employment, it seems logical to expect an early

improvement in sentiment in view of the over-all favorable outlook for 1948. If this change is at all pronounced, the effect on the stock market, considering the current and prospective levels of business and of corporate earnings, could well be dynamic."

"Although the economic outlook is excellent," the review continues, "a selective approach to securities will (as in 1947) reward the careful investor. The early months of 1948 should prove to be a good time for making portfolio adjustments, shifting to more promising industries and reducing commitments in the less favored groups. In making such shifts, or in new investment, emphasis should, in our opinion, be placed on issues in the following categories: Producers of capital and consumer durable goods, companies with low labor cost factors, companies with large backlog and companies with proven growth trends. We would be inclined to avoid companies specializing in luxury items. Obviously few companies will meet all of these tests, and there are undoubtedly many attractive issues which do not conform to the standards set. However, we believe that, by and large, these considerations will determine the industries (and the issues) which do well in 1948."

The firm points out that "selected railroad securities appear to provide attractive media for investment or speculation at present prices. A characteristic of rail securities with leverage is their wide price swings. Accordingly, they provide an excellent opportunity to capitalize fully on any sustained movement in the stock market. While some uncertainties obviously remain, the railroads, with the aid of modern equipment and a more cooperative attitude on the part of the regulatory authorities, are showing increasing ability to cope with the rising costs of operation."

Outlook for Commercial Finance Companies

By WILLIAM J. DRAKE

Executive Secretary, National Conference of Commercial Receivables, Inc.

Asserting good prospects prevail for continued and increasing high demand for business loans on a secured basis in 1948, Mr. Drake reviews new specialized techniques for equipment and inventory financing. Points out working capital demands to be furnished by finance companies are reaching a new high, and new credit fields are being explored by them. Sees no threat to finance companies in proposed legislative restrictions.

The commercial finance companies of the nation, performing the important function of making available to small and medium-sized business the steady flow of immediate credit on a secured basis, look forward to 1948 as a year of continued high activity.



William J. Drake

The adequate financing that will be required to meet the needs of business in an economy of inflated prices must of necessity draw more heavily on the resources and techniques of the commercial finance companies, particularly with respect to

supplying the most pressing need—adequate working capital funds.

Students of the problem recognize that while banks are in an admirable position to perform their traditional role of supplying bank credit, they note a growing conservative attitude with respect to the many new businesses that have been established in the past two and one-half years (estimated to be over 1,000,000 in number) and which are without experience in a highly competitive economy.

With American industry now producing at a rate nearly double the 1935-1939 average, or around \$235 billions annually, in terms of dollar totals, and with practically all predictions showing a sustained high output in the manufacturing, mining and other basic industries, at least for the first six months of 1948, commercial finance company executives see no slackening in the demand for business loans on a secured basis.

As the loans of commercial finance companies do not find their way into speculative channels, but are immediately translated into the production and distribution of goods and services, executives of the industry see an

encouragement of this form of credit by Government authorities rather than a curtailment of the same.

Four decades of activity in pioneering with credit devices, ranging from the financing of accounts receivable, inventory and machinery loans, and the financing of new commercial and industrial equipment on a deferred payment sales plan, have established methods of financing on a secured basis so firmly that today they account for a sizable portion of the over-all total of financing of small and medium-sized business.

Accounts receivable financing, or the financing of open-book accounts for mercantile concerns—the tool evolved and developed exclusively by the commercial finance companies—has found increasing favor with small and medium-sized business since this method came into being in 1905. Prewar figures indicated the total volume of this form of financing by all agencies in excess of \$235 billions. In 1947, it is estimated that the over-all total exceeded \$10 billions. The special techniques required to make this form of financing a source of immediate credit to the businessman, with a high degree of safety to the financial agency, has been worked out completely over the years by the commercial finance companies. Through the medium of this form of financing, the businessman is able to get adequate working capital to take advantage of his trade discounts, increase his sales, and likewise enlarge his profit margin, and resultantly, his net profits. The freedom from red tape with which the businessman can obtain instant cash has intrigued financial students and writers on the subject for many

years. Statistics show that only by availing themselves of this form of financing could many businessmen maintain their production schedules prior to and during the war years and the same picture was shown in the immediate postwar period.

Therefore, in 1948, the commercial finance industry believes that there will be a greater demand for this form of financing than ever before. The looked-for increase in competition in 1948 among manufacturers, distributors, jobbers and dealers in getting their products to consumers will necessitate a greater demand for this form of financing, especially for the company that is inadequately financed or does not have a flexibility of credit to keep pace in this contemplated and highly competitive market. Also, the very rapidly growing concern, whose product comes into immediate favor with the public, will find this method of finance the best offered to get its product to the public the quickest and in the largest quantities.

Equipment Financing

The specialized techniques evolved by the commercial finance companies over a period of years, for the financing of commercial and industrial equipment are in sizable demand again as businessmen look for more efficient and lower cost methods to meet break-even points. Demand was relatively dormant during the war period. It is contemplated that they will be used by manufacturers, distributors or prospective purchasers of commercial and industrial equipment in 1948 on a far greater scale than in 1947. A prediction of a third round of wage increases in 1948 and the

(Continued on page 33)

This is under no circumstances to be construed as an offering of these shares of preferred and common stocks for sale, or as an offer to buy, or as a solicitation of an offer to buy, any such securities. The offer is made only by means of the prospectus.

NEW ISSUE

The First Guardian Securities Corporation

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36,000 Shares

5% Cumulative Convertible Preferred Stock

(Par Value \$25 Per Share)

Price: \$25.00 Per Share

Plus accrued dividends from January 1, 1948

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(Par Value \$1 Per Share)

Price: \$10.00 Per Share

Copies of the prospectus are obtainable from the undersigned.

FIRST COLONY CORPORATION

January 14, 1948

Philip L. Carret Heads N. Y. Security Dealers

Philip L. Carret, Vice-President of Carret, Gammons & Co., Inc., has been elected President of the New York Security Dealers Association. Mr. Carret has served for the past six years on the board of governors of this organization and is a governor of the National Association of Securities Dealers, Inc.



Philip L. Carret

He also serves as Director of several corporations. Mr. Carret was graduated from Harvard University in 1917.

Other officers elected were: First Vice-President, George Geyer, Geyer & Co., Inc.; Vice-President, Herbert D. Knox, H. D. Knox & Co., Inc.; Secretary, Chester E. de Willers, C. E. de Willers & Co.; Treasurer, David Morris, David Morris & Co.

Governors elected to serve a three-year term were, Mr. Carret; Frank Dunne, Dunne & Co.; Hans E. Kuehner, Joyce, Kuehner & Co.; Walter Murphy, Jr., Walter Murphy, Jr. & Co.

A new nominating committee to serve for one year consists of Harry R. Amott, Amott, Baker & Co., Inc., Chairman; Chester A. Alberts, C. A. Alberts & Co.; Charles H. Dowd, Hodson & Co., Inc.; Harry MacCallum, Jr., Peabody, Tyner & Co., Inc.; and Charles D. Pulis, Pulis, Dowling & Co.

The annual dinner of the Association is scheduled for March 5 at the Waldorf-Astoria.

Chas. Warshoff Co. Opens

NEWARK, N. J.—Charles W. Warshoff is engaging in a securities business from offices at 1089 Broad Street under the firm name of Charles W. Warshoff & Co.

H. F. Swift Admits Booth

SAN FRANCISCO, CALIF.—Henry F. Swift & So., 490 California Street, members of the San Francisco Stock Exchange, have admitted John B. Booth to partnership. Mr. Booth has been with the firm for some time. Martin C. Wade, Jr., has retired as a partner in the firm.

For Profit

The \$5 Preferred stock of an 85-year-old New England company, which has a dividend accumulation of \$77 a share. Earnings over the previous ten years have averaged \$21.30 a share.

While no dividends have been paid for a number of years, earnings in nine of the past ten years covered annual dividend requirements by a wide margin.

Recent price 37

Ten-year average earnings in the Common \$4.07 a share.

Recent price 7

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Securities Salesman's Corner

By JOHN DUTTON

THIRD ARTICLE (Training of Salesmen)

The investor who seeks income is usually a person who has passed the accumulating stage in life. Most "investors for income" are members of that fast vanishing race of Americans who were able to save their money before the advent of present high income and capital gains taxes. They still think in terms of 4% and better—a rate of income return that used to be paid on savings before 1933. These people, as a general rule, have the following characteristics. (1) They are frank, intelligent and will give their confidence to others providing they can find a solid basis for so doing. (2) They resent any attempts at high pressure selling. (3) You can gain their good will by discovering a common interest. I have known such people to have highly specialized hobbies. Sometimes much more so than those who lead more extroverted lives. For instance, one such customer was an ardent prohibitionist, another a religionist, another was interested in music, another botany, and so on. You will find that an ability to discuss many topics is a great help in cultivating the friendship of investors of every type and description. Remember, your job is to encourage the other fellow to talk about his favorite topic. He will do this if he sees that you are interested in what he says. You can show your interest by asking intelligent questions.

The framework of a sales campaign that is designed for new men, who are going out to solicit business from investors interested mainly in "income," should start off with:

A GOOD ADVERTISING CAMPAIGN THAT BRINGS IN LEADS FROM "INCOME CONSCIOUS" SECURITY BUYERS. This should consist of both newspaper and direct mail advertising. Use Investment Trust offerings, a particular security with a good name and long dividend record, an offer of a list of investments that pays 5% and better, or a blind ad suggesting a prime investment paying 5%—the main idea is to find an advertisement that pulls. Use it on double return cards to special lists. Many of the replies will necessarily come from curiosity seekers and small investors. New men often become discouraged following such leads—supplement their leads with as many qualified names as you can give them—work with them—go over the results of their days work with them—keep them plugging, and don't let them become discouraged. Stockholder lists can be very useful in helping a new salesman get started—especially if you have an offer of current information that you can supply. Obtaining good leads for new men is a triple A responsibility of the sales department. You must spend money wisely, and do this job well, if you are going to succeed in this effort.

NEXT COMES THE FOLLOW UP OF LEADS: Give your salesman a story. Make it as simple as possible. There are few lists of securities that cannot be improved in some respects; either to yield, safety of principal, or marketability. Always have your men tell what other people are doing. "Some of our customers have increased their income 25%, and have also improved the strength and over-all safety of their investments, without investing any additional funds, and this is how it was done Mr. X." Then have your new salesman show the prospect several portfolios of some hypothetical accounts on "a before and after basis." Do this up well and you have the foundation for a complete sales presentation. If a prospect asks a new salesman a question about some security that he owns, such as a defaulted bond or a depreciated stock, your new man comes back with, "Mr. X, our statistical department is doing this work day in and day out. My firm spends a great deal of money obtaining the very latest information on practically every security. I will be pleased to secure the latest information on this, and you can be sure there will be no charge or obligation. In fact, it's a pleasure, because this will give me an opportunity to show you how conscientious we are in doing our job." Such questions should be welcome by the new salesman. They represent opportunities for drawing people to him and making friends. This point should be driven home. Nothing is more important in selling than a GOOD contact. Any thing that you can say or do that will bring you closer to your prospect is GOOD. I once knew a salesman that called on two new prospects within one week. The second one told the salesman that he had some foundry capacity that he wished he could sell, or rent, to someone that could use it. The salesman remembered that the first prospect was an executive of a firm that had a possible need for an additional foundry. He told the story to his first prospect. He didn't sell the foundry but he made two friends and two new customers. Pull your prospect toward you by showing an interest in his welfare. The sales will come along if you capitalize upon the opportunities you will make for yourself by opening doors, and keeping them open, TO YOU.

All first calls should have the objective of building confidence. First call sales should be made if possible—but they are rare in the security business. You are there to build confidence and friendship. If you make people like you the battle is 75% won. Remember—try to see your prospect under favorable conditions. This means, when he can devote the time and attention to your proposition that it deserves.

Next week we will discuss the framework of a sales campaign designed for those who are interested in "capital gains."

PRIMARY TRADING MARKETS

FOR
BROKERS, DEALERS and BANKS
IN
KINNEY-COASTAL OIL COMPANY
MACKINNIE OIL & DRILLING COMPANY

Established 1929

B. E. Simpson & Company

California Building, Denver 2, Colorado

Telephone KEystone 3101

Bell Teletype DN 157

Scores Increase in Bank Term Loans

N. Baxter Jackson, Chairman of Chemical Bank, says debt financing by industry, in lieu of obtaining equity capital, is unsound trend. Blames high income taxes.

N. Baxter Jackson, Chairman of the Chemical Bank and Trust Co., told shareholders at their annual meeting on Jan. 13, that the practice of industrial concerns in using term-loans obtained from banks instead of issuing stocks represented an "unsound trend," and he blamed high income taxation for drying up a source of needed capital.

"This needed capital, in our opinion, should not be provided by term loans in banks which we believe are already as high as they should be," he declared.

"Until there is some reduction

in income taxes, equity capital will not be available from the sources from which it has always been obtained," he added.

In referring to rising prices, Mr. Jackson stated that "inflation has already reached boom proportions." "It has become," he added "the most serious problem with which our country is confronted."

"To check inflation and prevent it from running its inevitable and disastrous course," he said, "requires the most sincere effort and the fullest cooperation of every segment of our economy, including government, industry, agriculture, banking and labor."



N. Baxter Jackson

Wants N. Y. Chamber of Commerce to Support Revival of Gold Standard

Edward J. W. Proffitt, of Manufacturers and Traders Trust Co. of Buffalo, offers resolution calling upon Congress to repeal New Deal statutes so as to reestablish coinage of gold and silver.

Edward J. W. Proffitt, of the Manufacturers and Traders Trust Company of Buffalo, N. Y., who on March 6 of last year proposed that the Committee on Finance and Currency of the Chamber of Commerce of New York State consider and report upon the advisability of a return to the old gold standard, at a meeting of the Chamber in New York on Jan. 8, again renewed his proposal and introduced a resolution calling upon the Chamber to petition the present session of Congress to repeal the New Deal legislation on gold and restore the status quo ante of U. S. currency as it existed before 1932. In his address to the Chamber, Mr. Proffitt stated:

"May I be permitted to submit for the consideration of the Chamber, a resolution which has been somewhat delayed by me in its presentation. But, after consultation with the Chairman of the Committee on Finance and Currency, I am decided to present it to you now, for the reasons which follow. The march of threatening world events has increased in tempo. The spectre of danger, maybe disaster, appears to lurk in the mists of the evidently confused thinking now prevailing in our Nation's capital.

"Do you not sense, as I do, with a suspicion, at least, of foreboding, that the unparalleled rise in the prices of necessities of life has been occasioned, not wholly by the scarcity in materials, nor by the shortage in production, nor by the increase of wages, but that, underlying it all, is something more sinister, more threatening than any one of these facts, or the combination of all of them. There's something wrong with our monetary system. Our Governor yesterday, in his message to the Legislature, remarked that 'the situation is perilous,' which I understand to mean, full of peril.

"Twelve months ago, I took the liberty of rising before this august assembly and, influenced by my years of experience in the Treasury Department, at Washington, and in the banking field here, I introduced a resolution asking for the study of our monetary system. The Finance Committee of the Chamber comprises several of our ablest bankers and industrialists, in whom I have much confidence and for whom I have great respect. Later, that Committee permitted me to appear before it. In a rather lengthy brief, drawn from the lessons of history, as taught in the experience of the past, I urged a definite program of action, which appeared imperative, in order that we might avoid or prevent ultimate disaster.

"The Committee is to be complimented upon the care and attention which they have given the subject. I appreciate their conservatism—the responsibilities for the stewardship of the vast funds of invested capital entrusted to their care. Action by them was asked, in the belief that this institution, nationally recognized for its leadership in economic matters, would, by its example, arouse further and more widespread study of the subject in other like bodies throughout the Nation. Such a movement unquestionably would have its influence upon thinking and action in Washington.

"Perhaps I am impatient. Perhaps a year and more is not enough to reach decision upon this problem. I am impelled, however, by the onrushing clouds of inflation which are darkening the skies of commerce and industry and the rumblings of thunder from the labor organizations, with flashes of threatened strikes lighting the industrial horizon, to ask action, soon.

"I would not trespass upon the limited time at the disposal of this Chamber, until the Committee had favored us with its views on the matter, but, with Congress again in session, action appears urgent. Most of us are familiar with the inevitable price to be paid for the excesses of uncontrolled printing press money. It is being well managed, we are told. But are you satisfied with conditions today? Have you any confidence that the situation can be held in hand, bad as it is, or do you believe, as I do, that it will grow worse, inevitably, unless effective action is taken now.

"I would repeat to you the horrible lessons we learned in school days history of the managed-moneys. The century-ago schemes of the John Law, Cambon and St. Just of French ill-fame, the generation-old collapse of Schacht's German plan—the recent British examples—the Chinese—and now the French—all managed-money fiascos.

But, as I said, the time is not yet for discussion here. We should have the benefit of the Committee's report first. The resolution I offer is a simple one—may it (Continued on page 30)

Says Self-Restraint by Banks Can Prevent Unsound Loan Expansion

S. Sloan Colt, President of Bankers Trust Company of New York, tells shareholders solution does not lie in restricting loans to maintain and increase production, but responsibility lies with bankers to discharge their functions properly.

In the Annual Report to the stockholders of the Bankers Trust Company of New York, just released, S. Sloan Colt, the President, after reviewing the institution's operations in 1947, made some pertinent remarks regarding proposals to restrict commercial bank credit.

"You have heard and read much in recent months about inflation, its causes and cures," Mr. Colt stated, adding: "A variety of opinions on the subject have been expressed by the Chairman of the Board of Governors of the Federal Reserve System, the Federal Advisory Council, the Secretary of the Treasury, the President of the Federal Reserve Bank of New York and others. I shall not restate their views here, but your management agrees with the President of the Federal Reserve Bank of New York when he says that the real fight with the forces of inflation must take place elsewhere than in the field of general credit control."

"The big expansion in the money supply started through gold imports and deficit financing before the war, and continued through deficit financing during the war. The postwar expansion in loans has been largely offset by the retirement of bank-held Government securities. During



S. Sloan Colt

1947, for example, the increase in the money supply was only about 2.5%, certainly not a major cause of the price rise of approximately 16% in that year. The present volume of business loans is largely a result of the inflation, rather than a primary cause. At these high prices it takes more money for business to build inventories and carry on its operations.

"The solution does not lie in measures which do not permit commercial banks to perform the functions necessary to maintain and increase production, or measures which create the risk of a serious deflationary movement. On the other hand, the exercise of self-restraint by banks in the granting of loans which increase deposits without increasing production will be necessary if the banks are to discharge fully their share of the common responsibility in the period that lies ahead. Bank managements do have a responsibility which can not be avoided by pointing out that others have equal or larger responsibilities.

"We all face the common dangers of inflation, and those in positions of responsibility, both public and private, share the duty of arriving at some program on which there can be substantial agreement for dealing with this problem."

society of the State of New York and the American Institute of Real Estate Appraisers.

The Board of Trustees of the Bowery Savings Bank, of New York, on Jan. 12 appointed Kenneth E. M. Hall and Montague T. Smith, Assistant Secretaries. William C. Sheerin and William E. Doepe were appointed principal executive assistants. Mr. Hall and Mr. Smith were promoted from principal Executive Assistants.

Major Benjamin H. Namm, on Jan. 13 was elected a Director of the Lafayette National Bank, of Brooklyn, N. Y., it was announced by Walter Jeffreys Carlin, President of the bank. Major Namm is Chairman of the Board of Directors of Namm's, Inc. He is also a Public Governor of the New York Curb Exchange and a member of the Exchange's Executive Committee. He is Chairman of the Board of Trustees of the New York State Institute of Applied Arts and Sciences and Chairman of the Red Cross 1948 Fund Drive. It has also been announced that the Downtown Brooklyn Association's Gold Medal for 1947 will be presented to Major Namm on Jan. 26. Major Namm is a past President of the National Retail Dry Goods Association and winner of the organization's Gold Medal Award in 1941. He was Chairman of the Retail Advisory Committee of the United States Treasury in 1941, was appointed a Special Assistant to the Director of the Office of Civilian Defense in 1942, became Executive Director of the United States Purchasing Commission in Brazil in 1943 and was named a consultant to the State Department at the United Nations Conference for International Organization in San Francisco in 1945.

At the annual meeting of stockholders of Brooklyn Trust Company, of Brooklyn, N. Y., on Jan. 12 at the principal office of the company, 177 Montague Street, Brooklyn, the following trustees whose terms expired were re-elected for three-year terms: George A. Anderson, Lewis M. Gibb, Edwin P. Maynard, George V. McLaughlin, Herbert E. Smith, and William J. Tracy. Harold P. Borer and Wilbur F. Burt, who were elected to the board during the past year, were re-elected for one-year terms. The President, George V. McLaughlin, reported to the meeting on the operations of the Company during the year 1947.

The election of Carl G. Preis as a Trustee of the Prudential Savings Bank, of Brooklyn, N. Y., is announced by Frederick V. Goess, President. Mr. Preis is Vice-President in charge of Engineering for the American Can Company with which he has been associated for 41 years. During the recent world war, Mr. Preis was Vice-President and General Manager of a subsidiary, the Amertorp Corp. which was the largest manufacturer of torpedoes in the United States.

The capital of the First National Bank of Binghamton, N. Y., has been increased from \$600,000 to \$800,000 through the issuance of new stock to the amount of \$200,000. According to the "Bulletin" of the Comptroller of the Currency the enlarged capital became effective Dec. 29.

An increase of \$300,000 in the capital of the Boardwalk National Bank, of Atlantic City, N. J., raising it from \$700,000 to \$1,000,000, effective Dec. 26, was reported in the weekly "Bulletin" of the Comptroller of the Currency on Jan. 5.

According to an announcement made Jan. 9 by Thomas C. Bou-

shall, President of The Bank of Virginia at Richmond, Arthur L. Lambdin, Vice-President and General Manager of The Chesapeake & Potomac Telephone Co. of Virginia, was elected to membership on the bank's board of directors at its meeting that day. After serving in World War I, Mr. Lambdin joined the staff of The Chesapeake & Potomac Telephone Co. in 1920.

In presenting his annual report Mr. Boushall stated that the capital structure of the bank will be increased \$500,000 by the sale of 15,000 shares of additional stock. This additional stock will be offered to stockholders of record as of Jan. 31 and warrants to pur-

chase rights will be open from Feb. 2 to Feb. 28 when settlement will be due. Sale price of the stock will be \$33.33 per share of a par value of \$16 $\frac{2}{3}$ which on Dec. 31 had a book value of \$40.37. This brings to \$3,000,000 the total capital and surplus of the bank.

THE FIFTH THIRD UNION TRUST CO., CINCINNATI, OHIO

	Dec. 31, '47	Oct. 6, '47
Total resources	\$257,552,875	\$238,988,455
Deposits	237,983,691	218,639,398
Cash and due from banks	86,556,105	61,465,442
U. S. Govt. security holdings	77,645,957	84,550,036
Loans & bills discounted	74,355,557	71,839,121
Undivided profits	2,328,078	3,353,197

(Continued on page 27)

REPUBLIC OF CHILE

Notice to Holders of Dollar Bonds of the Republic of Chile, Mortgage Bank of Chile, Water Company of Valparaiso, City of Santiago, and Chilean Consolidated Municipal Loan

On and after February 1, 1948, in accordance with the provisions of Law No. 5580 of January 31, 1935 as regulated by Decree No. 1730 of May 17, 1938 and Decree No. 37 of January 4, 1936 of the Republic of Chile (which decrees are now consolidated into Decree No. 3837 of October 24, 1938) and decrees issued pursuant thereto, **holders of assented bonds of any of the above loans will be entitled to a payment at the rate of \$10.296 per \$1,000 bond against presentation and surrender for cancellation of the coupons corresponding to said payment as set forth in letter of transmittal.**

The above payment will be made only in respect of bonds which have been stamped with appropriate legend to indicate that they have assented to the provisions of the aforesaid Law and Decrees (hereinafter referred to as the "Plan").

In the case of bonds which have been so stamped on or after October 24, 1938, other than bonds of the Republic of Chile Twenty-year 7% External Loan Sinking Fund Bonds, the presently announced payment will be made against presentation and surrender for cancellation of the coupons corresponding to said payment under the Plan and the bonds need not be presented. In the case of Bonds of the Republic of Chile Twenty-year 7% External Loan Sinking Fund Bonds, it will be necessary to present the Bonds so that supplementary coupons may be attached.

In the case of bonds of the above issues which have not assented to the Plan, said payment will be made against presentation of the bonds with all unpaid coupons attached for stamping to evidence their assent to the Plan on or before December 31, 1948.

A more detailed notice concerning the presently announced payment will be furnished with form letters of transmittal.

Presentation of stamped coupons in order to receive the presently announced payment at the rate of \$10.296 per \$1,000 bond, and presentation of bonds with appurtenant coupons for stamping, should be made at the office of the correspondent of the undersigned in New York City, **Schroder Trust Company, Trust Department, 48 Wall Street, New York 5, N. Y.**, together with an appropriate letter of transmittal. Letters of transmittal, and in the case of dollar bonds of the City of Santiago and the Consolidated Municipal Loan copies of the Prospectus, may be obtained at the office of said correspondent.

When requesting letters of transmittal, kindly indicate whether the letter of transmittal is to be used in connection with the presentation for payment of coupons which have already been stamped, or in connection with the presentation of bonds and coupons which have not been so stamped. In the latter case, kindly indicate whether or not the letter of transmittal is to be used in tendering bonds of the City of Santiago or the Consolidated Municipal Loan.

CAJA AUTÓNOMA DE AMORTIZACIÓN DE LA DEUDA PÚBLICA
(Autonomous Institute for the Amortization of the Public Debt)

AUGUSTO MERINO S.
Manager

PEDRO CASTELBLANCO A.
President

Santiago, Chile, January 15, 1948

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED
CAPITALIZATIONS

At a meeting on Jan. 8, the board of directors of the **Federal Reserve Bank of New York** selected W. Randolph Burgess, Vice-Chairman of the **National City Bank of New York** to serve during the year 1948 as the member of the Federal Advisory Council from the New York Federal Reserve District, according to an announcement by Allan Sproul, President of the New York Reserve Bank.

Manufacturers Trust Company, of New York, announces the promotion of Edward J. Colbert and Charles J. Pinto from Assistant Secretaries to Assistant Vice-Presidents. Mr. Colbert became associated with the bank in 1916 and coincident with his promotion has been selected to take charge of the bank's newest office at Eighth Avenue and 26th Street. With the opening of that office on Jan. 5, Mr. Colbert moved from his former location at First Avenue and 74th Street where he was Officer-in-Charge. Mr. Pinto, who joined Manufacturers Trust Company in 1939, is in the Foreign Department at the bank's head office.

Arthur S. Kleeman, President of **Colonial Trust Company, of New York**, has announced on Jan. 12 the change in name of the Foreign Department of the institution, which conducts the bank's overseas operations, to "International Division." "We have come to realize," said Mr. Kleeman, "that the world has grown too small to permit the use of the words 'for-

eign' and 'foreigner' in describing those who do not live within our own borders. Therefore, Mario Diez, Vice-President in charge of our international business, is advising all of our correspondents abroad of this change in the name of his department."

At the annual meeting of the Board of Trustees of the Irving Savings Bank held on Jan. 13 at 115 Chambers Street, New York, Charles T. White, Comptroller of the Union Theological Seminary, at 120th Street and Broadway, and Herman A. Acker, President of Herman A. Acker Corp., were elected Trustees. Mr. White has been connected with the Union Theological Seminary for about 25 years, first as Bursar and now as Comptroller. He is also Chairman of the Executive Committee of the Manhattanville Neighborhood Center, Inc., sponsored by the institutions in the community. Mr. White joins the **Irving Savings Bank** as Trustee to represent the area served by the new branch at 111th Street and Broadway. Mr. Acker has been identified since about 1910 with the real estate, insurance and construction business. He organized the Herman A. Acker Corp. in 1921 and has been largely responsible for the development of Fordham Road and surrounding territory in the Bronx. During the 1930's, Mr. Acker served as a Director of the reorganized New York Title Company under the supervision of the State Insurance Department. He is a member of the Appraisal So-

ciety of the State of New York and the American Institute of Real Estate Appraisers.

According to an announcement made Jan. 9 by Thomas C. Bou-

The Railroad Outlook

(Continued from page 15) compares with my estimate of about \$450 millions for the year 1947 which, in turn, compared with about \$287 millions, I think it was, for 1946, which income in 1946 was pretty largely represented by tax carrybacks; anyway it wasn't real earnings. In other words, the level of earnings of the railroad industry seems to be moving upwards which generally might be construed to be providing a pretty satisfactory background.

One important aspect to consider about this possible \$750-800 millions current annual level of net income is that it is good in dollars. As I said before, it is a level that has been exceeded only a couple of times in the entire history of the railroad industry. It is good in dollars, but it isn't too good in relation to gross revenues. It looks as if the gross revenues in the current year will run around \$10 billions, so the net income would be about 7½-8% on the \$10 billions gross. That compares, for instance, with about 17-18% in 1929. That smaller—what you might call—profit margin is something that has had an important influence, I believe, in making the railroads less popular.

Another factor that you have to consider is, while the current indicated annual level of earnings may be \$750-\$800 millions, will it actually be realized in the year 1948? There are plenty of elements of uncertainty in the picture and I, personally, believe you are going to have to keep a pretty open mind on the possible changes in the rate of earnings. You are going to have to sort of take a "new look" every month, I think, just to be on the safe side.

One favorable aspect of the situation is the possibility of some further increase in rates. The chances are that if there is any further increase in freight rates, it will become effective, of course, somewhere around July 1, since the temporary increases expire on June 30. Naturally the railroads aren't going to get too much benefit from any additional increases in the current year because they would be in effect only for the second half of the year.

Also on the favorable side is the prospect that there will be some moderate improvement in the traffic level. There have been a lot of industrial plants that weren't in full operation during the year 1947 which will be in full operation throughout the year 1948. In addition, other newly constructed facilities will be going into service, which will mean a still further increase in traffic. I think there may even be some moderate improvement in the passenger business despite the testimony of the Association of American Railroads that there probably will be some decrease in the current year. I think the railroads are very alert to the fact that with good modern, attractive, clean equipment, they can attract business. Wherever they have installed real modern service they have done pretty well. They have had crowded trains on a number of railroads of the country where such trains have been used for the first time, and new traffic has been stimulated which had not previously existed. This will be an important factor as the railroads get larger deliveries of modern passenger equipment, which they will in the current year.

The most important supporting influence for the present traffic level, in my opinion, is that we are in a great capital goods boom. That, I think, is the most important aspect of the whole rail picture. The oil industry is spending money right and left, and some of you may have read the article in the "Lamp," published by the Standard Oil Co. of New Jersey,

a couple of months ago saying that several billions of dollars would be expended in the next couple of years. In addition, the public utility industry contemplates expenditures of around a billion dollars a year for the next five years. The railroads themselves are going to spend probably \$750 millions to a billion dollars a year on new equipment and roadway improvements in the next several years. In the first quarter of 1948, they have already indicated, they are going to make expenditures of over \$300 millions, just for the quarter.

Automobile demand remains very substantial and I can not see that it is going to be reduced in the immediate future. I have had my own car on order for a couple of years and haven't received it yet. Maybe I will get it as the last one in the boom, but I don't think so. I think there will be a lot more behind me still waiting for them. Farm equipment demands are going to remain high. The construction industry can't help but continue at a high level, if you only give consideration to the new schools, hospitals, roads and other public construction that simply has to be done, that can not wait until construction costs go lower, if they are ever going to be lower. For certain of those facilities, there is no waiting. Residential construction has confounded all the pessimists, who have been saying that the industry priced itself out of the market. In spite of that, we have the largest number of new homes started in many, many years.

All these activities I have mentioned add up to the kind of traffic that the railroads carry. That's heavy traffic, which is where the railroads are at their best. Granted that maybe there will be some moderate contraction in consumer goods, where pipelines have filled up pretty well, but that is not what supplies the big traffic for the railroads. It is the heavy goods that arise from a great capital goods boom, and I can't see what is going to stop the capital goods boom for some time to come. Moreover, many of the commitments that are being made by industry are of a long-term variety and not likely to be curtailed simply by temporary influences.

Another very important consideration is that the railroads are steadily achieving increased operating efficiency. New equipment—freight cars, passenger cars and diesel locomotives—are helping to bring down unit costs of operation. In fact, I have talked with a number of railroad executives who have told me that a large part of their maintenance of equipment expense at the present time consists of uneconomical expenditure on very old equipment, which simply has to be kept in service because of the desperate need for it. Hence, as new cars and locomotives become available, some of this high-cost equipment can be disposed of, and that is going to bring down the operating costs. In my opinion, there is no quicker way of bringing down operating costs than through new equipment, so just watch the railroads that are buying the new equipment and you will have a good idea of which ones stand to bring their costs down most quickly.

On the unfavorable side, there are a couple of aspects that should not be overlooked either. The worst of them is the probability that railroad labor will be around again for another round of wages. The railroad brotherhoods are pretty alert to getting wage increases at the drop of a hat. They are, at the present time, giving consideration to what kind of wage benefits they want and they are leaning, I believe, toward asking for a 40-hour work week to replace the present 48-hour week.

Now a 40-hour work week would be pretty tough on the railroads. Just offhand, a 40-hour work week would seem to mean an increase of 20% in the total wage bill. Actually it would be worse than that because the railroads simply could not get sufficient additional employees to work the extra hours. As a result, they would have to use the same employees they now have and have them work the extra eight hours generally, which would mean that those eight hours would be paid for at time and a half rates; in effect, you would have something closer to a 30% increase in wages. If the railroad unions stick to that idea of asking for a 40-hour week, I'm afraid they'll get away with it, because the railroad industry is the only important industry in the United States that does not have a 40-hour week. They will be able to point to the steel, automotive and other big industries that have a 40-hour week and say, "We want it, too," and if they stick to that, without mentioning wages, they will be on pretty safe ground, so that is one thing you have to watch.

I think, however, that whatever increase in wages or equivalent that the railroads may have to grant in the current year will be pretty largely counterbalanced by the additional rate increases that the ICC very likely will authorize by July 1. On balance, I think you are likely to see the level of earnings maintained at the figure I have mentioned, around \$750-800 million. Accordingly, it isn't too bearish on the earnings outlook.

Then, of course, there is also the prospect that there may be other increased costs for material and supplies. They have been rising pretty rapidly and in this inflationary situation in which we are, there is no indication that those rising costs are immediately going to stop. The pessimists will also add, "Maybe there will be some business setback." That is entirely possible, but I think the capital goods boom is, as I said before, so potent that even any business setback would be limited mainly to the consumer goods field and would not hurt the railroads too much.

In summing up the earning situation, I'll pretty much stick to my thought that the level of earnings will run just the way I said, somewhere around \$750-800 million, almost, regardless of these other influences.

Now, that is pretty good, so let's turn to the next aspect of the situation—the current market outlook which probably interests most of you a good deal more than the number of dollars and cents that the railroads will earn.

Current Market Outlook

In my opinion, I doubt very much whether this current advancing phase in the railroad stocks will get beyond 58 in the Dow-Jones Rail Averages. They are around 53 today. First of all, there are some technical reasons why I think they will not get beyond 58. In the Dow-Jones Averages there is a very wide gap from about 54 to 58 made when the break took place, in August-September of 1946. The average may well go back to where the drop started and that probably would effectively stop them for quite some time to come. Another thing is, at 58 the Dow-Jones rail average would be up 17 points from the May low of about 41. Percentagewise, that would be about 40%. That would be pretty substantial and may induce some profit-taking on the part of those who picked up rail stocks cheaply. A 40% rise is a sizable one and I think most of those people who are bullish on the outlook for industrial securities would be very happy to settle right now for a 40% rise in the

industrials from their low of last May, which would get the industrials up somewhere around 220 to 225. I think most people would settle for that right now. So you have this barrier of a large enough advance to invite profit-taking. Another pretty important angle in the rails, probably more than in most other groups, is an extremely stable long interest. Big holders of stock are a good deal more anxious to get out on a good advance than they are willing to come in. They have been sort of locked up for quite some time and I think they would be disposed to be sellers, so you would likely have an increase in the floating supply of rail stocks.

I am also willing to make the guess that if the rails get up to around 58, as I think they are likely to, that may well prove to be the high for the year. I think that after the rails get up to around 58 they almost certainly would have a pretty good technical correction and I think they'd very likely spend most of the rest of the year in a relatively narrow range, say somewhere between, oh, maybe 48 and 53 or 54. If you are all customers' brokers, I know that you are anxious to make money for your clients so you can make money for yourselves. I think the most successful means of making money in the rails for some time to come will be to take advantage of the trading opportunities. Percentagewise, the rails consistently offer a better opportunity than almost any other group. They run up and down pretty fast. I think there is a good chance maybe you might get a double-top along about the time the Interstate Commerce Commission hands down its decision on the permanent freight rate increase.

There will be several influences at work, causing them to run up and down a bit and providing splendid trading opportunities. However, probably these trading opportunities would be limited to people who couldn't be too influenced by tax considerations and the six months' holding period.

Now, looking ahead to longer-term market possibilities, here I have said that maybe the rails might get pretty dull during most of the rest of the year, after they have seen their initial peak, have a few fairly decent trading rallies, but otherwise not do a great deal. If you people don't think they can do such a thing, just look at what the industrials have been doing for the last 16 or 18 months or so. They have been remaining in an awfully narrow band, relatively, and so don't be lulled into the feeling that the rails can't do likewise. I think there is a serious risk they might. I want to qualify that, to this one extent, that I think that second-grade rail bonds will behave infinitely better than rail stocks are likely to. I think you will find that second-grade rail bonds will generally follow an upward course. The reactions in them I don't think will take them down too far and any time the pressure is lifted they are likely to come up. I think the rail bonds are in a somewhat more favorable position than the stocks are, looking ahead to the full year.

I have expressed the thought that maybe rail stocks might get in sort of a tight range. Well, exactly what could get them out of that range and when, as and if they do get out of that range that I foresee, will it be upward or downward?

The thing that could put them downward more easily than anything else would be a pretty considerable decline in business which, personally, I don't see. I don't see that we are going to have any serious decline in business. Even so, I don't think the rail stocks would behave too badly if we had a recession of as much as 15% in business which used to be considered a pretty severe decline in activity. Those

of us who have been around since 1929 or prior thereto saw the level of business decline 50% from 1929 to 1932, so, perhaps to us, a 15% setback doesn't look quite so serious. It would be a serious contraction by prior standards, but even such a setback I don't think would hurt the rails too much because I am convinced the capital goods industries would continue to make a much better than average showing. The kind of traffic that the railroads move would continue to move in fairly decent volume and it might even be beneficial to the railroads in the long run to have some sort of a setback in business. I'll explain that later.

But what could move rail stocks upward out of a narrow range? I think the thing that most likely could move them upward, and maybe quite substantially so, over the longer term, would be some indication that the spiraling costs were leveling out. So long as you have the spiraling costs it is a little difficult for people to develop too much confidence in the rails. There always seem to be some sort of a lag. Rail management has been a good deal smarter this past year than it usually has been on rate matters. They filed their rate petition almost simultaneously with the prospect that they were going to be subject to increased wages. They even got the jump on the wage increase a little bit, so there was a lag of only about six weeks from the time the wage increases became effective to the time that the first of the temporary rate increases was put into effect. The rails have been alert to the need for keeping ahead, but this inflationary cycle of rising costs and rates is not the kind of thing that is really conducive to genuine confidence in rail securities. When you can see a leveling-out of the costs and the prospect that business is going to continue at a high level, then you will have the kind of a setting that might make for a tremendous rise in rail securities such as was seen in the late 1920's.

It wouldn't make a great deal of difference, I believe, whether that stabilization occurred at the current level or somewhere around this level or whether it occurred at a substantially higher level of costs so long as the stabilization took place; in fact, if the stabilization occurred at a substantially higher level of prices than currently prevailing, I think the rails probably would be in a very strong position to get large enough rate increase from the Interstate Commerce Commission that they would be able to realize their long-sought goal of 6% on their net investment in property. The higher the inflation cycle the easier it is going to be for them to obtain rates that may produce their 6%.

To go back to the point I mentioned before, about some sort of a business setback being perhaps basically favorable to the rails, from a long-term point of view, the probability is that it would result in stabilization of costs at a somewhat lower level than currently prevails. Hence, you would have an outlook for substantial earnings thereafter.

Market Outlook for Individual Stocks

The next topic in which I think you may be interested, is a discussion of some of the securities that I believe have better than average attraction and will behave exceptionally well on rallies and resist declining tendencies fairly well. In the intermediate grade of dividend-paying stocks there are, I think, some rather interesting opportunities, especially for people that have a long-range point of view and feel that they might want to go in for capital appreciation over the next several years and don't want to be hurt too much in the meanwhile.

Tops on my list would be the Southern Pacific. I think South-

ern Pacific stands the best chance of becoming a real blue chip over the next several years. The road has done a magnificent job both in operations and financially and its dividends seem to be fairly well protected. Earnings should be excellent in 1948. It has all the necessary background for future quality.

I have a list of quite a number of stocks that I think are attractive. If you are not averse to my listing them as, say, attractive dividend-paying stocks as against non-dividend paying stocks, I can make it clear what kind of stocks they are.

In the attractive dividend group are Southern Pacific (that I have just mentioned), Atlantic Coast Line and Western Pacific. Just to comment on them briefly, Atlantic Coast Line has been engaging in a tremendous maintenance program. Rehabilitation is what it really is and over the long-term there should be substantial benefits from that. Western Pacific has the characteristics of a real growth issue. Even before the war its traffic was above the 1929 level, which is quite unusual for a railroad and even though the road got off to a rather bad start in the first half of 1947, it has generally shown the attributes of growth characteristics in its traffic.

Then, in the—I feel a little bit perplexed how to explain the next couple. However, let's put it this way: Of a somewhat more speculative character, offering interesting price appreciation possibilities

and paying dividends, are Chicago and North Western and Gulf, Mobile and Ohio. Chicago and North Western, I should make it clear, has some rather unusual characteristics that can cause the earnings to fluctuate violently so that all of you should look into that pretty carefully. The operating ratio is very high ordinarily and a minor change makes a big difference in the balance I left for the common stock, so that the leverage is enormous on the small number of shares.

In the non-dividend paying group, Kansas City Southern, Seaboard Air Line and Chicago, Rock Island and Pacific, when issued, appear to have considerably more than average attraction.

For those of you who are interested in intermediate bonds that look undervalued, the New York Central issues, I think, have been unreasonably depressed. The Illinois Central joint refunding 4s, 4½s and 5s are good value; the B. & O. refundings, at current prices, are pretty well deflated, and some of the income bonds are fairly sound, like the North Wests, the Seabards, the Rock Islands, the Gulf, Mobile and Ohio and St. Paul, series As. In the defaulted group there aren't many left, of course, but the Missouri Pacific 1st and refunding 5s are still basically sound in the middle 70s. In the somewhat better grade issues, the B. & O. first mortgage bonds, Boston & Maine 4s and 'Frisco 4s are pretty good value.

system of the United States is to invite disaster.

A moment ago I referred to the fact that during the first World War, under government operation, rail rates were increased about 80%. But that is not the whole story. The decision to take over the railroads during that war cost the Government—meaning you, the taxpayer—almost \$1 ½ billions . . . and that at a time when the dollar had real purchasing power. How does that compare with the experience during World War II when the railroads were privately operated? Instead of costing the Government money, the railroads of the country actually paid the Government \$4 ¼ billions in taxes, or nearly \$4 millions a day! That represented a gain in the Government's revenues over the previous war of \$5 ¼ billions . . . a tidy sum, even in these days of astronomical figures.

This is not a plea for the continued operation of railroads under private, public-spirited management. No such plea is necessary in the face of that kind of a record! It is only mute evidence of what happens when we make economic mistakes. Let us learn by our experience and avoid another costly mistake. Let us make certain, in our own self-interest, that the railroads are maintained in a strong, healthy condition. If the "Iron Horse" is well nourished with rates which produce adequate revenues, it will be a healthier animal to do an even better job of hauling your load. But it is most discouraging and disconcerting, too, when that horse is forced to fight for enough oats to get even a starvation diet . . . to work for us all!

motive power and passenger and freight cars received or ordered since the start of 1945, and roadway and structures improvements involving expenditures or commitments of around \$50 millions for the 1945-48 period.

New Railroad Improvements

Two railroad improvements I want to mention especially, because they are of particular interest and importance to you of Lorain. As you know, with our good friends, the Baltimore & Ohio, we are just completing new coal and ore handling facilities on Lake Erie, some right here at Toledo on Maumee Bay. The coal docks at Lorain are exclusively a B. & O. project, while the coal and ore facilities at Toledo are a joint project between the B. & O. and the New York Central. These two undertakings involve a total expenditure of \$22 ½ millions and will be capable of accommodating the largest coal boats on the lake. All these docks, it is expected, will be placed in operation at the beginning of the navigation season this spring.

These new facilities are merely typical of the extensive improvement program now going on at countless points of America's vast rail transportation system. The railroads must continue to make such enormous expenditures for modernization if they are to continue to provide the transportation service required to meet the needs of the shipping and traveling public. Yes, to meet the needs of the vast expansion program of industry now going on right here in Lorain, home of the largest pipe mill in the world . . . improvements which, like those of the railroads, are made under private management with private capital.

The pace of technological developments is such that the "new" of yesterday and today all too soon becomes the "old" of tomorrow. Your railroads can continue to make these improvements for you only if they are permitted earnings sufficient to provide the "Iron Horse" with a "living wage." If that is done, we all shall profit; railroad and investor alike earning fair returns; railroads continuing their improvements; and the public enjoying ever-finer transportation service.

Encouragement From ICC New Rates

As we enter into this new year, the railroads find encouragement in the Interstate Commerce Commission's prompt consideration and rendering of the decision on Dec. 30 last to grant a further interim increase of 10% in freight rates. Gratifying as this is, it is only part of that necessary to insure the continuing financial stability of the railroad industry. It is hoped that the Commission will give favorable consideration to the railroads' request for the rest of the increase needed to restore a reasonable balance between income and outgo.

In the dark days of the middle or early thirties, there were those who all but relegated the railroads to the scrap heap. There were those who said they were destined to go the way of the canal boats and the stage coaches. There were likewise those who thought the railroads had ceased to pioneer as they did in the days when ribbons of steel were being laid across the plains of our great Middle West to link the industrial East with the Golden West—to make America. How wrong they were!

I do not know of one invention that has been proved practical or would be useful to make railroad safer, faster, or more economical for you—our passengers and shippers—which is not now in use or is soon to be adopted. I could spend hours telling you about the pioneering that railroads and railroad men are still

doing. The railroad plant is not finished—it never will be—so long as we have dreamers in the industry who dream of the trains of tomorrow and a lot of hard-fisted, practical men who will take those dreams and make them come true. We are thankful that we have both kinds of men. The railroads, like our great steel and other industries, are still pioneering.

And so, we of the railroad industry face the new year, resolved to continue our efforts to improve our plant and our service for the benefit of you our customers: firm in the conviction that none of the problems confronting us is impossible of solution; confident that the intelligent self-interest of the American people will require a public policy which will permit all of our free and efficient institutions to prosper. Only in such a way can we hope to maintain a strong America as a mighty force for the preservation of peace and security throughout the world.

Kidder, Peabody Admit Stuebner as Partner

PHILADELPHIA, PA.—Kidder, Peabody & Co. announce that



Erwin A. Stuebner

Erwin A. Stuebner has been admitted as a general partner of the firm, with headquarters in the Philadelphia office, 123 South Broad Street. Formerly a Vice-President of the Fidelity-Philadelphia Trust Co., Mr. Stuebner, in June of 1947, became associated with Kidder, Peabody in charge of the statistical and research department in Philadelphia. Previously he had been connected with Kidder, Peabody when he helped organize the Philadelphia office of the firm in 1934.

Graduated from the Wharton School of the University of Pennsylvania in 1927, Mr. Stuebner began his career in financial and investment banking when he entered the employ of the Guaranty Trust Co. of New York, to become Assistant Treasurer of that institution two years later. In 1929, he and Orus J. Matthews were instrumental in the formation of the Philadelphia National Co., an investment banking affiliate of the Philadelphia National Bank, and in 1931, Mr. Stuebner was elected a Vice-President of that company.

With the formation of Kidder, Peabody's Philadelphia office in 1934, Mr. Stuebner became Assistant Manager of that office in charge of its investment advisory and statistical research activities.

Joining the Fidelity-Philadelphia Trust Co. in 1938 as Vice-President in charge of the trust investment department, Mr. Stuebner continued in that position until May, 1942, at which time he was commissioned a first lieutenant in the U. S. Army Air Corps. During his 3½ years service, he was in charge of developing and installing an inventory control system for aircraft spare parts which was adopted and installed in Army Air Forces depots in the United States and in all overseas theaters. He held the rank of Lieutenant-Colonel when placed on inactive status in November, 1945.

Mr. Stuebner is chairman of the Hospital Council of Philadelphia; trustee and chairman of the Finance Committee of the Lankenau Hospital, and Commissioner of Lower Merion Township.

Railroads in Our National Economy

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ficient management to provide such service."

And as recently as last October, the Commission, in one of its decisions, reiterated the substance of that section. In addition, it emphasized that:

"Increasing costs of operation now pose and, unchecked, will continue to pose a serious threat to the maintenance of adequate transportation service; that the railroads as a whole, and many of the most important railroads of the country in particular, are definitely facing such a threat at the present time; that the public vitally needs an efficient transportation service, and imperatively demands a transportation system that is adequate for the national defense in any emergency."

Thus, we have the law-making body of the government and a highly respected government agency both fully recognizing the need for adequate railroad revenues to provide adequate and efficient railroad service in the public interest. Yet what has been the record over the years? During the past quarter of a century the railroads have earned on their depreciated investment a rate of return averaging only about 3.6% a year. And well over half that period was during the prosperous twenties, and the years of wartime peak traffic when railroad revenues were at their highest.

In 1947, the railroads handled the heaviest peacetime traffic in their history. Yet their return of only a little more than 3% was far below that necessary to assure the quality and quantity of rail transportation service required for industrial expansion, national growth, and wartime defense.

During the first World War, under government operation, rail rates were increased about 80% based on the average revenue per ton mile. But during the second World War, rates were no higher at the end of the war than they were at the beginning. Only the large volume of traffic handled during and since the war has enabled the railroads to absorb, in part, their tremendously increased

expenses in the face of rates and fares, which, until the last year or so, have remained practically unchanged. Even now they are definitely low compared with the general price level.

Freight Revenue Less Than One Cent Per Ton-Mile

We must look at this problem realistically and dispassionately. In every year from 1932 to 1946 railroad revenue for hauling a ton of freight has averaged less than one cent a mile. During this same period, the rate of return earned by Class One railroads fluctuated from a low of 1.4% to a high of 6.3% on their net property investment. But during those 15 years there were only two years (1942 and 1943) in which the rate of return equalled or exceeded 5%. Indeed, for that entire period it averaged only 3.2%.

For a moment, let us contrast the rate of return earned by the railroads with the national average for all industries. In 1946, for example, the return on net worth for all manufacturing was 12.1% and for all industry, including the railroads, 9.5%. But for all Class One railroads it was only 2.8% and is estimated at only 3.3% for 1947.

You men of industry, who are responsible for the prosperity of your own enterprises, would consider such a return, year after year, entirely inadequate for maintaining the financial stability of your own industries. You would likewise consider it inadequate to permit you to progress to meet the needs of a growing nation. It is certainly inadequate for the railroad industry. The cheapest expenditure that America can make is to give this country a prosperous railroad system, assuming always that the management of your railroads is observing the admonitions found in the Interstate Commerce Act to operate these railroads economically and efficiently; I assure you that this is being done. To pinch pennies in the case of the transportation

\$13 Billions in New Equipment

Despite the meager return which the railroads have had during the past quarter of a century, they have invested more than \$13 billions in new equipment, heavier rails, better right-of-way, new stations, new signals, modern shops, and in many other improvements, all to provide America with the highest possible standard of service. Yes, railroad service which, with all its shortcomings or occasional failures, today is, and even in prewar times was, the envy of the world.

This vast improvement program was started just following the first World War. At that time, some short-sighted people said the railroads were being overbuilt; that they would have idle plant and equipment which would be unproductive. Yet, what happened when the second World War overtook us. Every part of plant and structures and every piece of equipment were pressed into service, were strained to meet the demands of a nation engaged in an unprecedentedly large-scale war. It was because the railroads in prior years had provided adequate tools that they were able to do a concededly magnificent job during the second World War . . . a job which helped spell defeat for the enemy of freedom. It has often been said that it was Hitler's emphasis on highway transportation at the expense of the railroads which proved to be the "Achilles' heel" in Germany's transportation system.

During the war the railroads were able to make only such limited improvements as were directly related to war needs. But they did not neglect to blueprint their postwar improvement program. Today, those blueprints are being translated into new streamlined passenger cars, new freight equipment of the latest type, expanded utilization of modern diesel electric locomotives, new and sturdier roadbeds, increased use of radio telephones, and a multitude of other improvements of the most modern design. On the New York Central, our improvement program calls for a total expenditure of over \$225 millions. Of this amount, more than \$175 millions are for new

As We See It

(Continued from first page)

future. Year by year, beginning now, we must make a substantial part of this progress."

It may be doubted whether this "ten-year plan" technique was even original with President Roosevelt. It may or may not in its essence have been original with the Russian Communists—that is the political practice of keeping the rank and file constantly looking ahead to a promised Utopia, so busy looking ahead that no time is left for a backward glance at broken promises and the failures littering the past years. At any rate it seems fairly clear that the Russian Soviets took an early lead in the development and full exploitation of the technique, and that it was a vital part in all of the New Deal strategy.

We Hope They Are Wrong

We most ardently hope that the President and his advisers are wrong in supposing that the scales have not yet fallen from the eyes of the people of this country.

It was inevitable—and perhaps excusable in an election year—that the President should list high among his "goals" such age-old political ambition as that of securing "fully the essential human rights of our citizens," and protecting and developing "our human resources." No political speech—and this is a political document presented in a political year—would be complete without some such balderdash conspicuously displayed in its columns.

The observer familiar with the practices and the history of politics, particularly in this country, may well be inclined to pass by such twaddle as this with a shrug of the shoulders, but as much can not be said of the steps which the President (following closely the example and the models of his predecessor) suggests for attaining such goals. Not much harm is done by being against sin, but a great deal of damage may be done by half-baked schemes to abolish sin. The best thing the politician in Congress can do (if they are interested in the real welfare of their country, as we must hope they are) is to applaud the President's aspirations (if they must) but pass quickly by his paternalistic programs in the name of Federalized health, education, housing, and veterans' welfare.

But even worse is found when the President gets down to some of his other goals. He is fired, for example, with zeal to "conserve and use our natural resources so that they can contribute most effectively to the welfare of our people." If we did not have the example of years of the New Deal managers before us, it would be astounding to observe the breadth and extent of statism which is proposed and defended in the name of this vague aspiration. It not only includes vastly enlarged reclamation projects costing many hundreds of millions of dollars, and a continuation of past subsidies to agriculture and more of the same sort, but all the "river basin" TVA's which the New Dealers thought up during their decade and more in the saddle in Washington.

It grows worse as we proceed. We also must "lift the standard of living for all our people by strengthening our economic system and sharing more broadly among our people the goods we produce." Here it is, apparently, that the President draws most heavily upon that rather strange medley of economic advisers he has gathered about him. Take this passage:

"Although the average farmer is now better off than ever before, farm families as a whole have only begun to catch up with the standards of living enjoyed in the cities. In 1946 the average income of farm people was \$779, contrasted with an average income of \$1,288 for non-farm people. Within the next decade we should eliminate elements of inequality in these living standards."

"To this end our farm program should enable the farmer to market his varied crops at fair price levels and to improve his standards of living."

"We need to continue price supports for major farm commodities on a basis which will afford reasonable protection against fluctuations in the levels of production and demand. The present price support program must be re-examined and modernized."

"Crop insurance should be strengthened and its benefits extended in order to protect the farmer against the special hazards to which he is subject."

"We also need to improve the means for getting farm products into the markets and into the hands of consumers. Cooperatives which directly or indirectly serve this purpose must be encouraged—not discouraged. The school lunch program should be continued and adequately financed."

"Another basic element of a strong economic system is the well-being of the wage-earner."

"We have learned that the well-being of workers depends on high production and consequent high employment. We have learned equally well that the welfare of industry and agriculture depends on high incomes for our workers."

"All of us must advance together. One-fifth of our families now have average annual incomes of less than \$850. We must see that our gains in national income are made more largely available to those with low incomes, whose need is greatest. This will benefit us all through providing a stable foundation of buying power to maintain prosperity."

"Business, labor, agriculture and government, working together, must develop the policies which will make possible the realization of the full benefits of our economic system."

A Pointed Question

As to all this let us ask ourselves just one question: How long will it be before Stalin and his associates will be obliged to look to their laurels as world champions in acting as if all their people were children not yet out of the kindergarten—in need of a paternal hand to provide them with the good things of this world and to guide them along the troubled paths of life! Have the American people really lost all their boasted self-reliance? We do not for a moment believe so. If so their doom is sealed.

Then, too, of course, we ourselves now enjoying unheard-of prosperity, must see that recovery takes place in Europe. Somehow the managers in Washington have found how to induce recovery abroad although the previous regime in that Capital tried in vain for years to induce one in this country. At any rate, they now have the solution for world ills—and we must take it as is. And the cost per year is calculated to be two or three times the entire annual Coolidge budgets.

And then the President finally gets around to inflation—which, according to officialdom and virtually all the politicians, is the number-one problem of the day. Here again the President has a ready answer despite the fact that virtually everything else in his program makes, or would make, the problem the more difficult of solution.

The solution, it hardly need be added, is controls and more controls.

Finally on Monday last we were given a concrete illustration of what some of these things cost. Many of them are temporarily deferred, but even so total expenditures proposed for the coming fiscal year exceed by nearly \$2 billion the outlays of the current year when they were \$10 billion or more higher than they should have been.

Somehow, sometime, and that before very long, we shall have to put an end to this sort of thing if we wish to survive.

Economics and Morals of Inflation

(Continued from page 4)

needs to be followed probably slowly, and certainly with a great deal of caution, especially on the money-supply side. The other approach is to slow up the machinery of inflation by applying brakes directly to the too rapid movement of prices, wages, and resulting profits.

We will spend the lesser part of our time this evening on the fundamental control of the structure of inflation. This will be for the reason that it is more highly technical and moral considerations are not so clearly involved. Let me only reiterate my conviction that to depend entirely on the required monetary and fiscal policies for reducing the money supply will be too slow a process if it is done safely, and too unsafe a process, leading to unemployment and depression, if it is done quickly. We therefore cannot afford to depend on monetary and fiscal policies alone for we will either permit inflation to continue too long and go too far, or we will face depression and unemployment.

The other factor, the increase of production of goods and services is, in turn, not easily managed. Increase in production can come from better management by business, more faithful work by wage earners, new products more economically made, new labor saving equipment or a longer work week without overtime pay.

As we look at this list of correctives it at once appears that only two of them can be immediately applied. The rest take

tionary factor instead of a deflationary one. Anyone familiar with industrial accounting will recognize that this would not be true. There is such a large body of fixed expense in production (including such things as interest, insurance, executive salaries, property taxes, and hosts of others) that the total percentage of increase in cost of production due to the higher wages from longer hours would be less than the percentage of the increase of production itself, and there would result more goods for a given purchasing power, which in turn means that there could be a higher standard of living at a lower price.

This is evidently the shortest, most direct, and most effective way to lower the ceiling of inflation. The question as to whether or not it should be undertaken is a fundamental one. It leads us to consider the extent to which we prefer to take our improved living standards in the form of leisure as against increased goods and services.

Controlling Machinery of Inflation

When it comes to the problem of controlling the machinery of inflation as distinguished from its structure, we find ourselves face to face with a very serious problem which may be stated thus: Can we maintain full employment without inflation? Except for the so-called frictional employment which is largely temporary and voluntary for the individuals included, we have had full employment for many months. We are also having a dangerous inflation. Full employment and inflation are going together: Is the inflation merely a happenstance or is inflation the normal result of full employment? These are the questions we must face.

In wartime we had over-full employment without inflation. We accomplished this by means of rationing, price control, and wage control. We are loath to reimpose these wartime controls in peacetime.

In peacetime there is a quite evident relationship between full employment and inflation. Without discussing at this time the question as to which comes first—wage advances or price advances—it is quite clear that with full employment and heavy purchasing power the ordinary limits on both wage advances and price advances disappear. If the worker can leave one job without doubt in his mind as to whether he can get another, he will be much more confident and persistent in making wage demands than he will be otherwise. If the manufacturer finds himself in a seller's market, the ordinary restraints on raising the price of his product disappear. This describes in simple terms the malady we are suffering from today.

Whether the initial impetus comes from high wages or high prices, they react on each other with deadly precision. High wages increase costs and purchasing power. The increased costs are reflected in increased prices, which find the high purchasing power available to move into consumption and enjoyment of the goods and services produced. Finding that this results in no net increase in consumption, the desire for high wages again expresses itself with another profitless revolution of the machinery of inflation.

Increasing Production

It is already clear to us that no actual improvement in consumption is possible without an increase in production. Without that increase, a rise in wages or profits simply makes the goods produced cost more. On the other hand there is on the part of some workers a feeling that profits can be dipped into and thus shared in equitably, but there are limits to this process. Net profits of around \$17 billion are resulting from our present net national income run-

ning at a rate of \$210 billion. This is about 8%. Profits amount to about 13% of labor cost. The wage increases being asked, if obtained by all those engaged in productive work, would go far beyond this maximum of 13% available for distribution. Furthermore, we cannot, of course, do away with profits without stopping the machinery of employment and production.

What is happening, of course, is that a temporary advantage of the expense of the rest of the workers goes to those organized groups which get the first advances in a new round of increases. This they gain at the expense of other groups who are slower in making and gaining their demands. They have to hurry to catch up. Some groups never catch up. This considerable body of those left behind is growing and constitutes our most serious internal social problem at the present time.

It is clear that the existence of a body of unemployed would slow up this inflationary machinery. We are not satisfied to have that body of unemployed. We must find some other way to avoid inflation. How can we do it?

Self-Discipline for Labor and Management

I regret that I can see no simple or easy way. In fact, the only way is a hard way. That hard way is a matter of self-discipline for organized labor and for business management. It involves first the understanding of the simple truth that we consume and enjoy only what we produce, and that there is no use trying to raise the standard of living by raising wages and profits if, in the process, we do not produce more.

The second thing which must be deeply graven on our consciousness is that, under full employment, decisions of important groups of labor and industry as to wages, prices, and profits are no longer private matters. They are public matters and must be determined with the public interest as a major element in the decision.

In reality this public interest serves the private interest as well. There is no private interest of those engaged in the physical production and distribution of goods and services which is served by an unrestrained inflation. The only group which makes money under those conditions are the scavengers and vultures of the social order who fatten on the distresses of the productive elements of society. The interests of those productive elements are the same, whether their place is at the work bench, the counter or the executive desk. Their problems and decisions must alike be made in view of the social and long-range interests rather than of their immediate short-range advantage.

There is a hard way to slow up and even to reverse the machinery of inflation. It depends on cooperative action of government, business and organized labor, each playing their parts in their respective fields of responsibility. It depends on governmental and business action effecting a reversal of the movement toward high prices and an increased cost of living. It requires a corresponding action on the part of organized labor to withdraw its demands for further useless wage increases. Let us examine the details of this program for a few minutes.

The continued increase in the cost of living does furnish a justification for further wage increases, which it is hard to refute. We all know that those increases add fuel to the pressure under the rise of prices. But we do know that there is a temporary alleviation of the pressure for those groups fortunate enough to be successful in their demands. What can be done about removing such justification as arises from a higher living cost?

The principal elements in these costs are food, rent, clothing and fuel. The importance of the latter element is determined by geo-

graphical location. Rent is under control and the probability is that it will so remain for another year under some terms upon which a decision has not yet been made. The cost of clothing has been increasing but at a slow rate as compared with other elements, particularly food. Coal prices were increased following Lewis' successful negotiations last fall and fuel oil prices have been creeping up. By far the largest element in the increased living costs, however, is food.

If, in turn, we look at food by itself we find a number of items in it that are difficult for the family budget. Among them is milk which is serious from the standpoint of its being the necessary food for the children of the family. But even that is completely overshadowed, so far as percentage of cost increase is concerned, when we compare it with the advances which have been registered in the price of meat. Meat is the bad actor. It is very largely responsible for an increase in food costs which should normally be around one-third of the family budget but has risen to 40 and 50%, and in some cases even higher. We will have to place upon food and upon its most unruly element the largest measure of responsibility for increased living costs.

There is the further complication that meat prices are going far higher than they are at present. This is the universal testimony of those who ought to know. The number of meat animals in the country is decreasing and the money demand, based upon increasing money incomes of the group which is receiving increases, is and will continue to drive the price far above anything we have ever known. If government is to make any contribution to stabilizing the cost of living, it is evident that the item on which it should concentrate its attention is meat.

Favors Meat Rationing

Believing this strongly, I am preparing legislation which will authorize setting up the machinery, the necessary rationing documents, et cetera, for the administration of a meat rationing program by the Department of Agriculture. The bill will not authorize rationing. That would be left to a second action by the Congress which will not and should not be taken by it until the demand of the people of the country for control of meat prices is so strong as to be politically irresistible. Only under those conditions will rationing operate. Only under those conditions will the evils of black markets be reduced to a manageable proportion. But many of us believe that the demand will come.

The reason for preparing for such demand is that it will take a certain number of weeks or months to prepare for rationing. It is necessary to start now if we are to be ready when the time comes. Note that the proposal is for rationing alone. If this is properly administered, it will control the price to the consumer by artificially controlling consumer demand. If properly administered, it will provide the stockraiser and stockfeeder with prices high enough to insure full production of meat animals. A price high enough for that will be well below present prices but will, nevertheless, be perfectly fair to all concerned.

Meat rationing is, therefore, the contribution which the Federal Government can make toward stabilization.

Business has a contribution to make as was stated earlier. Not merely wages but the prices charged by our basic industries become under present conditions matters of public concern. A considerable part of price policy has moved out of the area of strictly private business determination.

The business contribution is this—that those industries producing and distributing goods which enter importantly into the cost of

living, and which are in a financial position to do so, should at least refrain from further price rises and should, if at all possible, make some contribution to lowering their prices and thus bring to a halt and reverse the upward movement.

There is one company which has notably and in the public interest done this. I refer to the announcement of the General Electric Co. as to its price reductions on household equipment and similar goods. That announcement should be followed by others in such important lines as textiles, clothing, building materials, wherever the profit position concerned makes it possible.

It would seem clear that a corresponding contribution should be made, for instance, by the oil industry in fuel oil for house heating which has been moving up continuously in spite of very satisfactory earning records by the companies involved.

In urging this action on the part of business I am well aware that increased reserves for depreciation and increased profits for providing those reserves are justified on the basis of increased cost of replacements arising from the inflation. Yet we are faced with the dilemma that this, too, is a part of the inflation cycle. It will be better to take a little chance on reducing prices and slowing up additions to depreciation and replacement, with the reasonable hope that such action will make a real contribution toward reducing the necessity for such added funds.

There is, furthermore, the necessity which both government and organized labor must recognize for earnings sufficient to be plowed back into the business for more efficient equipment, so that the wage earner's labor hours will produce more goods and services for distribution; for this is the way in which the standard of living is improved and, as we have seen, it is one of the ways in which inflation can be arrested.

Nevertheless, when all is said and done, opportunity yet remains at this time for industry to make its contribution to stopping the continuing increase in living costs.

Responsibility of Organized Labor and Government

We have defined the government's responsibility and industry's responsibility. What is the responsibility of organized labor? Further wage demands, particularly on the part of those already in the upper wage income groups, should be withdrawn. It must be clear to the leadership and it must become clear to the rank and file that only temporary benefits can be derived from pressing these further demands at this time. There is no possibility of permanently increasing anything except money wages. There is no possibility by this means of increasing the amount of things which may be bought with that money except as these higher paid wage earners spearheading the demands for higher wages get benefits which are taken away from the lower earning groups left behind in this wave of wage increases. Surely organized labor wants no benefits gained on those immoral terms.

We have examined the possibilities of long-range control of the structure of inflation by monetary and fiscal means at the money supply end, and of the production of goods and services at the product end. We have described a program for slowing up the machinery of inflation by bringing into control the price of the most important element in the cost of living, by asking for an end to price increases and some price reduction on its products by industry, and by a withdrawal of wage demands by organized labor. Let us review these proposals in the light of the first few paragraphs of this talk.

How much can be done by government action and how much of it is a responsibility of citizens in their private capacities? To what

extent is the solution of our problem a question of economics and to what extent is it a question of morals?

The government has very definite responsibilities in control of the structure of inflation. It is responsible in a large measure for fiscal and monetary policies. It is largely responsible for monetary policy although in the question of control of the kind and volume of credit that responsibility lies first with the banking system. It lies secondarily with the instruments of the Federal Government if private policies with regard to credit expansion are ineffective or insufficient.

On the question of increasing the volume of goods and services there is a governmental responsibility to see to it that our tax system is such that necessary profits are permitted for channeling into the capital requirements for expanded and improved production. This is a major requirement for the prosperity of the American people. This is the way in which the standard of living has been raised in the past. It is more true now than it ever has been that further advances in the standard of living lie in the direction of further capital investment, provided we are to retain the 40-hour week. We can get no increase from additional employment. We have and have had for many months full employment. The road to higher production and increased enjoyment of goods and services is predominately through increased capital investment.

The contribution which government makes to putting the brakes on the machinery of inflation has just been discussed. It lies in the control by rationing of the most important element in the cost of living. It is, however, no more important than the responsibilities which lie upon business and which lie upon labor.

If the electorate is not convinced of the necessity for this limited rationing, it cannot be accomplished by any government which, like ours, depends for its existence on the will of the people. There are, furthermore, personal responsibilities which have already been mentioned in connection with diligent work and avoidance of featherbedding as one means for increasing output, raising the living standard, and halting the advance of high prices.

The Moral Question

We must conclude, I am sure, that the various policies and steps in those policies which we have been discussing lie within the field of economics. When, however, we come to an analysis of the non-governmental requirements they present themselves to us fully as much in the guise of moral questions as of economic problems.

Take the question of "featherbedding," for instance. Aside from its economic effect in reducing the standard of living, there certainly are old-fashioned moral questions involved in not doing a full day's work for a full day's pay. Are there not also moral questions involved in appealing to business to forego at this time profits which can be justified on conventional economic grounds and grounds of business prudence, but which are asked as a contribution to general welfare in a critical situation?

Certainly there are moral questions involved in asking the higher paid groups in organized labor not to demand still higher wages when their only possibility of gaining any advantage from such high wages lies in getting it at the expense of lower paid groups who are less effective or less fortunate in getting their incomes increased.

What is the relation between economics and morals anyway? One gets the impression that conventional economics is based on the conviction that attention to private interests on the part of all the elements of the economy results beneficially and automatically in the service of the general interest. This position was more or less definitely stated by Adam Smith.

If this were ever true, it appears to be so no longer. It certainly has been modified by the immense power and influence of large-scale industry and organized labor. When the coal industry as a whole, or the steel industry as a whole, even without collusion or conspiracy, acts in accordance with its immediate self-interests, it is a different thing in kind as well as in size than when the corner grocers of the United States so act. When nationwide organized labor in a given industry acts in accordance with its short-range self-interests, there is no decision of the Supreme Court relieving them of charges of conspiracy, which can relieve them of the responsibility for the effects of their action on the course of trade and on the general well-being of the nation of which they are such an important and determining part. Moral responsibility is inherent in the decisions of the greater industries and the great labor unions simply because they are great and because they deal with the vital decisions of our economy.

In the face of these new responsibilities resulting from the size and influence of business and labor organizations, we are faced with new and serious problems. It is doubtful whether those problems can be solved by asking business and labor to make all of its decisions on a moral basis instead of on the basis of self-interests. It is not at all clear, for instance, that one can determine freight rates and railroad wages on purely moral grounds. The attempt to do so would lead to inextricable confusions. It would lead to a breakdown in service and financial bankruptcy. What is the clue to the useful and effective acceptance of the moral responsibilities which we have described?

I would suggest that it lies in the difference between short-range and long-range self-interests. Short-range self-interest looks to the immediate advantage of the small group. It assumes that such advantages are worth fighting for even though they result in slowing up the progress of the whole society of which this small group is a part. May I suggest that such a viewpoint is both morally and intellectually indefensible. It is both bad morals and bad economy.

On the other hand, if we can revise the old notions of the ultimate beneficence of the sum total of selfish decisions, to define those selfish decisions as being in long-range self-interests as distinguished from short-range self-interests, then do we not have a theory of economics which is adapted to our modern conditions of powerful business and powerful labor?

These are brave words but they are not easily translated into brave and useful action. They involve a thoroughgoing process of moral and intellectual education. They have to affect the habits of thought and modes of action of millions of people in humble and exalted positions in all activities of business, labor and government.

If our society is to survive, we must solve this critical problem of avoiding destructive inflation while maintaining continuing high employment. We can only solve that problem and we can only survive if we can translate our ideas of self-interest into the longer range and wider sphere in which those interest really lie. To this undertaking of translating our springs of action into these larger terms we must address ourselves with determination and energy if we are to survive.

Current Replacement Costs And Corporate Earnings

(Continued from page 2)

throughout American industry. Money now being spent in the United States for replacement and expansion of plant and equipment is at an all-time high. In 1947 alone, corporate expenditures will total \$16 billion—two and a half times the normal pre-war replacement capital expenditure rate of \$6.6 billion. The petroleum industry spent one-eighth of this sum. But like others, the petroleum industry would much prefer to postpone present rates of expenditure until materials and man-power are in better balance with demand. In fact, the capital budgets of most companies provide only for urgently needed plant replacement and expansion to take care of essential consumer requirements, both at home and abroad. It is no secret that meeting these requirements cannot be delayed without serious economic and political repercussions.

One of the main reasons for the unprecedented capital expenditures is the current peak in construction costs. Chart No. 4 shows what this means. According to the Bureau of Labor Statistics, wholesale commodity prices have now reached the World War I peak and are almost double those of the pre-war years. Furthermore, the chart shows construction costs are now approximately 70% above their pre-war levels and equally as far above the peak levels reached in 1920. The graph also shows that construction costs receded only slightly following the first World War. It is doubtful that there will be any major decline from today's level, because

of advances in wage rates and the artificial restrictions against technological improvements in the construction industry.

Cash Depleted

With all these forces working against real—as opposed to apparent—earnings, it is only natural that industry should find its cash depleted. During previous booms, when capital expenditures and earnings were at record levels, corporate enterprise was able to pay generous dividends and at the same time expand plant facilities through the medium of additional capital—capital that was either borrowed or raised through new stock issues.

Today, unfortunately, financing is not so simple. Tax rates are designed to discourage private capital accumulation and investment. The market for stocks suffered a severe setback in 1946, and investor enthusiasm has yet to recover from this blow. In other words, management is reluctant to propose new issues of common stock at today's price levels and in the face of lukewarm demand. Borrowed capital, although financially less attractive, enjoys a better market than stock, but even the market for borrowed capital is declining. Interest rates are rising faster than they have at any time during the past nine years and are naturally dampening corporate enthusiasm for additional borrowing. Consequently—and in spite of a high profit level—these circumstances are forcing many companies into a rapid depletion

*War Emergency Facilities written off for book purposes. [†]Excludes intangible development expense. [‡]Earnings and dividend estimates: Standard & Poor's Corp. [§]Chase National Bank, 1946.

NOTE—Adjustment is for 50% increase in write-offs.

of cash as they proceed with necessary expansion of plant facilities.

Pressures on Management

Besides coping with the problems we have just mentioned, management today is under considerable pressure because of the simple fact that earnings do not reflect replacement costs. This pressure is bearing down from three directions—from employees, from stockholders and from internal operations. Organized labor and other employees, as well as stockholders, are "reluctant" to understand why management cannot increase wages and dividends. The reason for management's stands is graphically illustrated in Table A. After allowing for a 50% increase in depreciation charges during 1946—to provide for increased replacement costs—30 leading oil companies paid out almost 90% of their adjusted earnings in dividends. If the industry continues to distribute earnings at this rate, it will eventually be forced to finance almost all new expansion, as well as increases in dividends out of new capital—probably borrowed.

Internally, of course, all oper-

ating costs are completely distorted unless they are adjusted to reflect current replacement costs of plant and equipment. The manager who calculates his costs, profitabilities and price structure on prewar capital costs is living in a fool's paradise just as dangerous as that occupied by the businessman who budgets 1948 profits on prewar labor rates.

Oil Industry Problem Unique

With a few exceptions, such as service agencies, the problems involved in accounting for replacement costs apply to industry at large. With the petroleum industry, however, the problem is a special one—and for an important reason. The greater the amount of plant and equipment required by an industry, the more acute is the problem inherent in exaggerated earnings attributable to prewar charges for capital. As shown in Table B, industries require a widely varied proportion of investment in plant and equipment with regard to sales. Petroleum, with more than \$1 of investment per dollar of annual sales, is close to the top of the list. Chart No. 1 shows what this

means to the oil industry. With an adjustment of 50% in depreciation charges, oil companies' earnings, instead of representing an estimated 15% return on invested capital for 1947, are actually reduced to approximately 9%. (No adjustment for invested capital base.) Charts No. 2 and No. 3 show how a similar adjustment causes a drastic reduction in oil and steel earnings as a percentage of sales.

There is no escaping the fact that the problem of accounting for replacement costs is of industry-wide scope and definitely serious character. It can be summed up as follows: with no changes in today's levels of prices, wages, material costs, dividends, capital expenditures, construction costs, or any other factors, under accepted accounting methods, profit and loss results will gradually decline year after year until all prewar plant and equipment have been replaced. If management sets a dividend rate equivalent to today's earnings and maintains the rate unchanged for the next 10 years, it will have paid stockholders largely out of capital rather than out of earnings—obviously an unhealthy situation.

Views on Replacement Costs

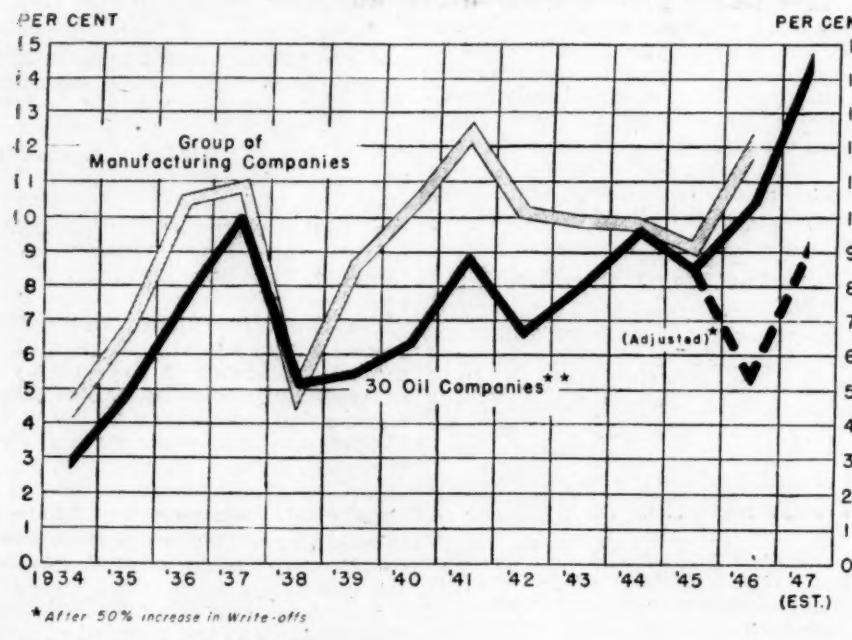
Arguments most commonly presented on the subject of replacement costs have so far represented three distinct viewpoints: those of the public accountants, those of the economists, and finally, those of management. First, the public accountant who thrives on principles of consistency and thoroughly tested standards of procedure, staunchly defends reported earnings without any adjustment for replacement costs. He prefers to let the chips fall where they may and to offer whatever verbal explanations may be required for retaining earnings rather than distributing them. He is convinced that whatever goes up must come down and he argues convincingly that any sound procedure for reporting excessive replacement costs should apply with equal force to declines in construction costs.

Second, come the economists and others who recognize the present as a time of unprecedented inflation and who maintain that prices, profits and values should all reflect the new postwar price plateau as quickly as possible in order to avoid deceiving anyone as to actual corporate earnings. With much justification, they argue that corporate capital re-

TABLE B
Investment in Plant and Equipment per Dollar Sales—1945

Cement	\$1.89
Copper Mining	1.49
PETROLEUM	1.12
Paper	.95
Chemicals	.87
Iron and Steel	.63
Railway Equipment	.58
Textiles	.55
Autos-Trucks	.38
Machinery-Plant Equip.	.34
Electrical Equipment	.32
Locomotives	.30
Tires-Rubber	.29
Food-Meat Packing	.21

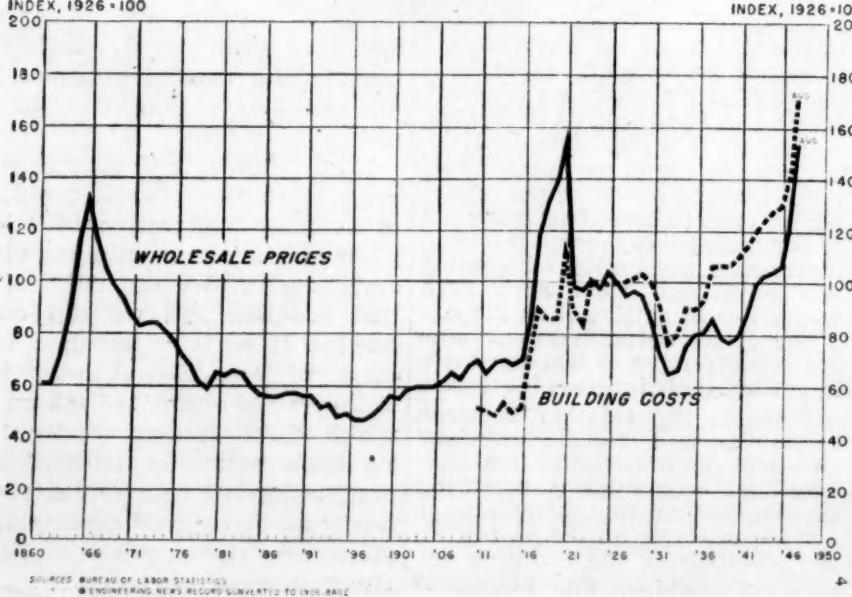
RATE OF RETURN ON INVESTED CAPITAL



* After 50% increase in Write-offs

** SOURCE: 1934-1946 CHASE NATIONAL BANK

WHOLESALE COMMODITY PRICES AND BUILDING COSTS



SOURCE: BUREAU OF LABOR STATISTICS
* ENGINEERING NEWS RECORD CONVERTED TO 1926 BASE

TABLE A
TWELVE OIL COMPANIES—EARNINGS
1946 Actual and Adjusted
1947 Estimated and Adjusted
(Millions of Dollars)

	1946 Write-offs	1946 Reported	1946 Adjusted	1947 Estim.	1947 Adjusted	Earnings		1946 Actual	1946 Earnings	% of Earnings	Adj. %	Dividends	1947 Est. %	Adj. Est. % Earnings
						1946	1947							
Shell	\$25.0	\$32.9	\$20.4	\$53.9	\$41.4	\$20.2	61.4%	\$20.2	\$18.8	99.0%	26.9	49.9%	65.0%	55.8
Standard-N. J.	154.8	177.6	100.2	273.3	195.9	82.0	46.2	81.8	109.3	40.0	40.0	40.0	40.0	55.8
Standard-Calif.	39.6	67.0	47.2	94.3	74.5	29.9	44.6	63.3	41.6	44.1	44.1	44.1	44.1	55.8
Standard-Ind.	51.9	67.6	41.6	91.7	65.7	26.7	39.5	64.2	30.6	33.4	33.4	33.4	33.4	46.6
Socony	66.0	58.3	25.3	93.5	60.5	23.4	40.1	92.5	31.2	33.4	33.4	33.4	33.4	51.6
Texas	58.5	71.1	41.9	84.4	55.1	33.7	47.4	80.4	33.7	39.9	39.9	39.9	39.9	61.2
Gulf	59.4	58.3	28.6	86.2	56.5	22.7	38.9	79.4	25.0	29.0	29.0	29.0	29.0	44.2
Sun	19.6	10.9	6.1	25.1	20.3	3.4	31.2	55.7	4.1	16.3	16.3	16.3	16.3	20.2
Atlantic	24.7	9.6	—2.7	15.2	2.8	4.0	41.7	200+	4.0	26.3	26.3	26.3	26.3	142.9
Sinclair	27.6	27.6	13.8	38.9	25.1	12.0	43.5	87.0	12.0	30.8	30.8	30.8	30.8	47.8
Pure	15.1	17.1	9.9	24.1	17.0	5.0	29.2	50.5	6.0	24.9	24.9	24.9	24.9	35.3
Ohio	14.2	18.3	11.2	29.5	22.4	8.2	44.8	73.2	11.5	39.0	39.0	39.0	39.0	46.9
30 Oils	716.0	763	382	1137.0	679	331.0	43.4	86.6	406.6	35.8	52.2	52.2	52.2	52.2

*War Emergency Facilities written off for book purposes. [†]Excludes intangible development expense. [‡]Earnings and dividend estimates: Standard & Poor's Corp. [§]Chase National Bank, 1946.

NOTE—Adjustment is for 50% increase in write-offs.

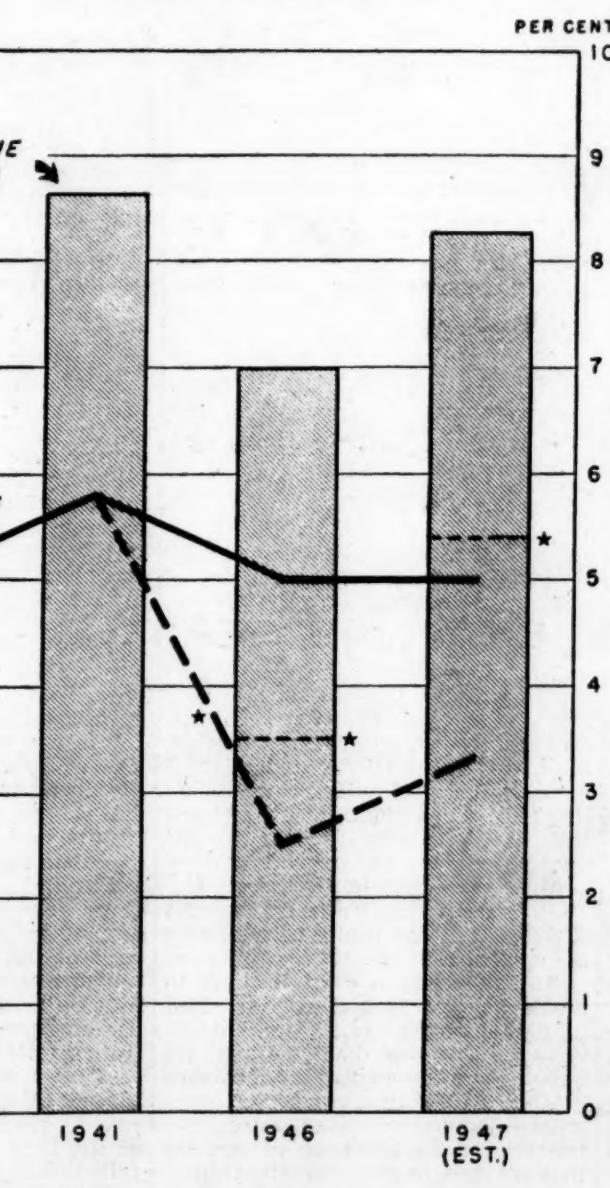
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Internally, of course, all oper-

NET INCOME SIX STEEL COMPANIES



*After adjustment for 50% Increase in Write-offs

SOURCE: 1939-1946 S.E.C.

Universal Military Training

(Continued from first page) ment. Only an aroused public opinion can force that speed.

Within a country, violence is the prerogative not of the individual members of society, but of the state. Only the guardians of the peace may bear arms and shoot. Others may not. In international affairs, violence should similarly be the prerogative not of the member states, but of the UN. When the struggle is between might and right, it is important that organized might be on the side of right.

International affairs are now at the stage of evolution of a Western border town in pioneer days. Everybody was armed until courts, sheriffs and jails were instituted. When men were lawless, only fools relied on conscience. Similarly, until international law becomes effective, our country must be prepared for any eventualities.

U. S. Saved by Miracle

The United States was saved by a miracle twice, in the world wars of 1914 and 1939. Let us not rely permanently on the inevitability of miracles. The defense line against the aggressor was held first by France and then by England. They gave us a breathing spell. Their space gave us time for preparation. But space has shrunk. Bombing planes and rocket bombs cross borders. There is no defense line now. Russia collapsed in the First World War because she had no intervening space before the aggressor. Only her thorough preparedness saved her in the Second World War.

The American motto under T. R. was "Speak softly and carry a big stick." But before and after World War II our motto was and is "Talk tough and brandish a broken reed." Our ends and means are incongruous. Defense and disarmament are incompatible. A timid State Department grows out of defenselessness. Soviet bluffs sound real because backed by adequate force.

The pacifists argue against universal military service. What has been the experience with their fantasy? The British pacifists in the 1920's gathered over ten million signatures on a petition never to fight again "for King and country." That was the cue to the German militarists. Hitler feared no longer to attack. But the Russians were not pacifists. They armed to the teeth. So Hitler made a peace pact with them. Perhaps the best way to preserve peace is to be prepared for war.

What alternatives have the pacifists? Are they willing to assume the responsibility when their unrealistic plans fail? Indeed, have they a positive policy? War and the preparation for war is a matter for professionals, not amateurs; for doers not talkers. Can the pacifists do anything at all when the crisis comes? If not, they are irresponsible meddlers.

There was a species of grouse called the fool-hen. It was the pacifist of the bird world. It was tame and trusting, and therefore became extinct. Will our country be the fool-hen among the nations?

Law and Justice Must Be Backed by Force

Law and justice must be backed by force. Law is obeyed even by potential violators because of fear of arrest and imprisonment. Without jails, the law would be mocked by some and justice perverted. In the international field a similar situation holds. The territorial integrity of China was guaranteed by nine powers. When Japan invaded Manchuria in 1931, China was weak. Secretary Stimson made a vigorous plea to maintain this multilateral treaty, probably the strongest ever written.

But the guaranteeing powers were reluctant to use force. So China fell before the Japanese.

Similarly, when Fascist Italy invaded Ethiopia, international force was required to check the invasion of a member of the League. But except for the United States, the other countries were unwilling to use economic force in the form of oil sanctions. And Ethiopia fell. Similarly, when Nazi Germany violated treaties and invaded territory of members of the League, force, or a show of force, might have checked Hitler. But force was not applied.

Again, Great Britain signed a treaty with 51 nations to facilitate the immigration of Jews to Palestine and to encourage land purchases. In the 1939 White Paper, Britain prohibited the immigration of Jews and prohibited land purchases. The Jews of Palestine were weak. None of the 51 signatories was willing to use force to have Great Britain live up to her treaty obligations. Though the original area covered by the Balfour declarations was 40,000 square miles, Great Britain wrested therefrom 30,000 in Trans-Jordan and in several partition proposals would have whittled the area to 1,200 square miles.

The pacifists, opposing Universal Military Training, would rely on justice, on international law and on the conscience of mankind. But the history of the Jews of Europe is tragic witness to the futility of such reliance. Unarmed and without defense, the Jews for centuries have been the victims of "accumulated criminal fury, ruthless massacre and malicious slander, spiritual and bodily ravishment, fanatical persecution to the point of utter exhaustion of the victims, systematic blood-baiting, mitigated by no scruples whatever, orgies of greed and cruelty." So wrote Jakob Wasserman, the novelist.

Treaties to respect the rights of minorities were signed by Romania in 1878 and by Poland in 1919. The history of the Jews in these two unhappy countries is one of regularly recurring pillage and massacre. Since 1939 the Nazis, lacking conscience, ignoring justice and devoid of mercy, killed 6 million unarmed Jews in Europe.

Unarmed and unprepared, the Jews of Europe fled and ultimately died in gas chambers and were burnt alive in fiery furnaces. But a handful of physically armed and spiritually prepared Jews of Palestine fought an Empire which broke its treaty pledges, until it threw the issue to the United Nations. This international organization, observing treaties, respecting law and executing justice, voted for a Jewish State by an overwhelming vote. Justice was achieved by force, not by pleas.

A great British statesman stated the case clearly. Lord Wedgwood, in a letter dated July 16, 1938, wrote to the Jewish Veterans of the Palestine Campaign of World War I, who were resident in Tel Aviv: "I am afraid that mere asking for help is useless. Demands, backed by nothing but a sense of justice, play little part in modern history. Now Jews are sent to concentration camps and gaol without trial or charge, and no protest or demonstrations are made by the 450,000 Jews in Palestine. . . . It is for the Jews in Palestine to stop that sort of thing. The same applies to Jews arrested for carrying arms. The Bastille was put down for less than this."

The above examples prove that the argument of the pacifists is false. Treaty obligations, honor and conscience play no role unless backed by force. Until an international force is set up, the United States must have its own potential force to defend its interests.

The Time Factor

War is getting complex. It is not a matter of muscle but of mind. Science is more important

than a soldier's strength, and technology than individual toughness. It takes months and perhaps years to train men in military chemistry, mechanics and electricity. The more complex our civilization, the longer is the time necessary to prepare for defense. Universal Military Training does not imply tyranny. True, Germany did use universal military service as an instrument of aggression. But there is no essential relationship between preparedness and aggression. In the past there have been aggressors without universal military service. And there are countries that have had universal military service and never aggressed. Switzerland, the oldest republic in Europe, dates back to 1291. It maintained its independence for almost seven centuries.

At the Zurich World's Fair of 1939 I was deeply impressed by the section of the exhibit devoted to extolling universal military training. The Swiss have had a citizens' army for generations and are proud of it. Preparedness was the essential basis of the Republic and its continued existence. The Swiss National Anthem reads:

"When you call, my Fatherland, your sons vow with heart and hand cheerfully to defend you. Eternal liberty is our battle cry. Only he is free who dares to die. When peace smiles, after the battle, we dream the nobler dream—to increase happiness in our homeland."

In the Swiss anthem, unlike the German, there is not a word of conquest, or of power, or of superiority. For generations Switzerland has proved that universal military service is fully compatible with ideals of individual liberty, democracy and peace.

For several months before the war, I saw Swiss guards patrolling bridges and manning pill boxes, from Schaffhausen to Basle along the Rhine, prepared to defend their country against Nazi aggression. The Swiss were not only militarily prepared, but they were spiritually prepared. At Basle, "Wilhelm Tell" was played six times out of eight weekly performances. I inquired of a Swiss friend why "Wilhelm Tell" was played so frequently. He replied, "We just want to show those Nazis that we licked them once, and will do so again, if they attack us." America needs such spiritual preparedness.

The whole concept of volunteering is futile and puerile. The plea to volunteers is, "See the World," "Get an Education," "Learn a Trade," "Enjoy Good Health," and "Get a Pension After Twenty Years." Will these inducements attract the best types of citizen?

Taxation Is Compulsory

Suppose we had no compulsory taxation, but only voluntary contributions to support the Government. Suppose we gave similar arguments citing the benefits to the citizen of making such voluntary contributions? We would tax not on ability to pay but on willingness to pay. The Government would issue supplications, not orders. Of course, the arguments would become ridiculous. Our Government would depend on philanthropy and social conscience. But though the law allows contributions up to 15% of the taxpayers' income, the amount actually donated was only 0.7% on a national average.

Citizens have not only rights but duties, not only privileges but obligations. The British in 1914 tried a volunteer army and killed off the socially sensitive and responsive elements of the community. The slackers survived. Defense of the country is a counterpart for benefits received.

Until the UN can defend all countries against an aggressor, each country must defend itself.

We must stay armed until all disarm, else our dead of the two wars will have died in vain.

Our Declaration of Independence concludes with the words:

"And for the support of this Declaration, with a firm reliance on the protection of Divine Providence, we mutually pledge to each other our Lives, our Fortunes and our Sacred Honor."

Our declaration of survival as a free and independent people now requires a like pledge. But, as a national peacetime policy, we have thus far pledged only our fortunes. Taxes are a first lien on annual income and on an estate. The compulsory peacetime taxes made possible large-scale

industrial mobilization from 1939 to 1942, which brought us victory. We have thus far refused in peacetime to pledge our lives in adequate defense and as a result we may have actually lost lives needlessly during two world wars. Unless in time of peace, we pledge our lives in defense, we may lose both our life and our sacred honor, as a great nation.

Rich in resources, we must defend them. Great in new responsibilities for world peace, we must face them. Heirs of individual liberty and social freedom, we must preserve them. Such policy requires Universal Military Training, not irresponsible fantasies and idle chatter.

A Revival of Old "New Deal"

(Continued from page 11)

to come. Nothing is said of additional taxation to take care of all the hand-outs that are proposed. The people are to get something for nothing from dear old Santa Claus.

Cost of Social Security Proposals

What are these proposals likely to cost? They are so vague it is impossible to do more than make an intelligent guess. The level of benefits is to be raised for all unemployment compensation, old-age benefits and survivors' benefits. In years to come this would amount to billions of dollars mostly to be collected from employers, employees and general taxation.

The national health insurance system, which is not insurance at all but the providing of free medical care to all the people of the United States, would require taxes, probably pay-roll taxes, in the neighborhood of four or five billion dollars a year.

The President says, "Our ultimate aim must be a comprehensive insurance system to protect all our people equally against insecurity and ill health." This seems to be a kind of catch-all Beveridge plan for the United States which would take about 18% of payroll, or about \$20 billion (including health insurance and present levies for old-age insurance and unemployment compensation). Of course, it would be taxation, not insurance.

The various proposals for aid to education are vaguely stated but I would guess they might amount to a billion dollars a year. The housing program might cost \$200 million. From the message we cannot judge the estimate of the additional public works, but the reclamation program is to be expanded, although the Republican Congress in 1947 appropriated more money than has ever been appropriated before in a single year.

In some manner not defined the average income of farmers is to be raised well above that which exists at present. Any such agricultural program as the President seems to envision will certainly take cash from the Federal treasury in large hunks. More money is asked for the school-lunch program, the electrification program, the soil-conservation program and adequate diets for every American family.

Cost of Marshall Plan

Then, in the field of foreign affairs we come to the Marshall Plan, involving about \$3 billion a year more than we are now spending but apparently included in the new budget. The President states that we must maintain strong armed forces, and must add to our present system at least compulsory universal military training. The cost of that is estimated anywhere from \$2 billion to \$4 billion.

The President's air commission is about to recommend an increase of \$2 billion a year in the expenditures for our Air Force.

If war with Russia is our present concern, then certainly the Air Force is going to play a much more effective part both in defending this country and attacking Russia than universal military training. And its surveillance certainly has a prior claim.

Altogether, I would estimate that if we follow the President's recommendations we would spend almost at once \$10 billion a year more than we are now spending, with later increases to come. Where is this money coming from?

Estimate of Taxes

We raise today about \$20,000,000,000 from the personal income tax. If we want to get the money from that personal tax we will have to increase it by about 50%.

Since you can't increase by 50% the taxes of the wealthy, who pay 80% already, most of the burden will have to fall on the lower and middle income groups. If the money is collected from more pay-roll taxes it will certainly fall on the lower incomes. If more business taxes and taxes on corporations are levied they are paid in the last analysis by individuals through higher prices or otherwise. So, in one way or another, the 60,000,000 workers in this country are going to pay those additional taxes, either directly or through further increases in prices.

In short, the President is simply following the old New Deal principle of promising the people something for nothing. No one has ever found out how that can be done. I do not mean to say that all the features of the President's program are to be condemned. I only point out that taken together they add up to national bankruptcy.

The President in some parts of his message compares the condition of our people favorably with 1938, incidentally in the midst of a New Deal depression. At other points he pictures the condition of our people as about equal to what prevails in Russia. What have we got for all the New Deal spending of the past 15 years, except taxes and rising prices and war?

President's "10-Year Plan"

Now the President talks about a new 10-year plan, doubling Joe Stalin's bid. What reason have we to think that the social welfare of our people would improve any more in the next 10 years than it has in the last 15 years?

The other feature of the message which stands out is the New Deal request for more power and more interference with the daily lives of the people. The message asks again for rationing, for price control, for wage control and for complete power to allocate the products of industry.

It asks again the power to draft 1,200,000 boys a year out of their homes and schools and trades and professions into military training.

It asks again for power to socialize and nationalize medicine. Under the President's health program, \$3 billions or \$4 billions would pour into Washington in

pay-roll taxes or other taxes to be used by a Washington bureau to pay all the doctors in the United States to give free medical service to all the people in the United States.

That means, in effect, that all the doctors would become employees of the Federal Government. It means that the Government by regulation would determine when any family could have a doctor come to their home and when they would have to go to the clinic or the hospital, whether they could have X-ray treatment. Two or three hundred thousand Federal employees would regulate every detail of their medical treatment. Certainly, nothing could more intrude into the freedom of the American family than government medicine of this kind.

Too Much on Federal Government

Throughout the message all the emphasis is on action by the Federal Government. Not a word is said anywhere of preserving the power of the State and local communities to improve their own affairs or direct their own education, health, welfare or housing. The message follows the standard New Deal line that places all power in Washington bureaus. If we destroy the independence of our communities, I don't believe we can retain any popular freedom in a country the size of the United States. Again, I do not mean to condemn all of the projects. I only point out that, taken together, they will add up to a totalitarian state.

The 10-year Truman plan would leave about as much freedom in this country as Stalin's five-year plan has left in Russia. Not only do control measures destroy freedom, but they don't get the results. President Truman himself said that rationing and price control are police-state methods. Such methods won't work in the United States in peace time, as we saw under OPA. They can't be enforced. Black markets spring up over night.

If these controls could be enforced they would stifle production as they have in Europe and did here—and more production is the ultimate solution. Freedom and free competition made America the greatest producer in the world, and have made it possible for us to help Europe.

The President shows no sense of the real causes of inflation. Prices go up when there is more money to buy things than there are things to buy. We are producing more today than ever before, but the Government has created still more paper dollars. The ultimate solution of inflation is to increase production, and that is what controls have always prevented. Then, while you are increasing production—which takes time—you have to cut down spending, and that is what price control has always encouraged.

Need for Economy Neglected

The President doesn't say a word about the need for economy. He claims credit for cutting the budget from \$63 billions in the fiscal year 1946, when we were engaged in war against Japan, to \$38 billions two years later when we are at peace. Not much credit in that. In 1948 we are still spending four times what was ever spent before the war.

The first step to stop spending is for the Government to stop spending. That will set an example and enable it to get some cooperation from the people so that they can spend less and save more. The biggest inflationary element has been the export of goods and services in 1947 up to \$18 billions, against only \$8 billions of imports. Ten billions came in here, mostly loaned by us, to compete with our citizens for goods and services produced here. Of course, prices have gone up. Of course, wheat is at \$3 a bushel. The President had full power to limit exports, but he hasn't used

the power, and he doesn't say a word about using it in his message.

Furthermore, the Administration let bank loans increase in a year by \$5 billions, creating that many more paper dollars, and failed to use the powers it always had to restrict bank credit. The President doesn't say a word about any of these American methods of preventing inflation. He only wants control.

Outside of controls, his only suggestion is that taxes must remain high. Our tax burden today is about \$40 billions. With the state and local taxes, it amounts to about 30% of our national income. This cost of Government is a burden on the other 70% of the productive workers. The tax burden is passed on for the most part into higher prices paid by every consumer for the food, clothing and shoes that he buys.

The President's Tax Proposals

Less Government spending and less taxation are the most obvious of the methods of dealing with the price situation. The President recognizes that taxes are unbearably high and proposes a credit of \$40 to each individual taxpayer plus \$40 for each dependent. This will take about 11,000,000 taxpayers off the rolls altogether.

It is equivalent to a \$200 additional exemption for persons in the low-income groups and less than \$50 additional exemption for those in the higher groups. It is about as discriminatory a proposal as could be made, and if followed to its logical conclusion will ultimately exempt a large proportion of all income and shift all taxes on to a very small proportion of the population. Up to now we have gone on the theory that each citizen owes an obligation to his government to contribute according to his means.

The President says a straight tax reduction would be inflationary, but if so his proposal is equally inflationary at this crucial time, because it takes effect at once, whereas the proposed increase in corporation taxes won't be paid until 1949. In any event, it is the total tax burden which increases prices, and that the President refuses to lower.

Of course, the increase in corporation taxes from 38% to 50% is another discouragement to any increase in production needed for full employment and to lower prices. New enterprises are less likely to be started if persons feel that the Government is going to take half the possible profits. Of course, many new enterprises fail and the people who start them lose all the money they have put in. It would be "heads you win, tails I lose."

Stifling Investment

In one place in his message the President says: "We are today far short of the industrial capacity we need for a growing future. At least \$50 billion should be invested by industry to improve and expand our productive facilities over the next few years." In his mid-year economic report last July, the President said: "High corporate profits have provided funds for a substantial proportion of the heavy volume of business investment during the first half of 1947."

Now does the President expect business to make this great investment of \$50 billions if taxes take away the profits and makes it unprofitable for new money to go into business? It is estimated today that it costs \$6,000 of new investment to create one new job in industry. If we want to keep full employment going, that investment must continue. I suppose it is smart politics to take money out of corporation profits and divide it out among the voters at \$40 a head, but sometimes I doubt whether smart politics is smart.

Twice last year, President Truman vetoed tax reduction bills on

the pretense that they would increase inflation. Now in a message in which he says inflation is worse, he asks for tax reduction. Probably you will get tax reduction now, but what about the reduction you were entitled to last year and didn't get?

The President has followed the prediction of every member of Congress, newspaper correspondent and radio commentator. They all said that Truman vetoed the tax bills last year because of Republican sponsorship and that he would try to get credit this year—election year—for cutting taxes. It looks to me like playing politics with your money.

Republican Program

The Republican Congress proposes to go on with its program. It has consistently given the President all the powers he needs to stop inflation by American methods. We have given him everything except the OPA and wage fixing and rationing, police state methods. All the important powers he has had ever since the war, but he hasn't used them. It doesn't look as if he wanted to reduce prices. Whenever any food price starts going down, or even threatens to go down, some government department steps in and starts buying to keep up the price.

We will make every effort to cut government expenditures, and really cut all taxes and the tax burden, and cut them for good.

We will scrutinize every expenditure, including the Marshall plan, so that it may include nothing which is not absolutely necessary.

We will proceed with a program of social welfare in health, education and housing and social security. But our program will be based on state and local administration and control, and Federal aid in reasonable sums will be limited to those fields where the States and communities cannot adequately do the job which ought to be done for the benefit of those of our population who cannot earn their own way.

We will insist upon sound fiscal policies to keep the economic machine running at full speed to provide employment and prosperity on a permanent basis.

We will work out our program of progress along those American lines, within the principles of freedom and justice, which we followed for 150 years, and which have made this country the happiest on the face of the globe.

Carl X. Bloomberg With Thomson & McKinnon

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Carl X. Bloomberg has become associated with Thomson & McKinnon, 231 South La Salle Street. In the past he was Manager of the trading department for E. W. Thomas & Co. and prior thereto was an officer of Taylor, Duryea & Co., Inc.

Ketcham & Nongard Adds to Staff

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Roy D. O'Brien has been added to the staff of Ketcham & Nongard, 105 West Adams Street.

With Charles A. Parcells

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH.—Peter M. Macpherson has been added to the staff of Charles A. Parcells & Co., Penobscot Building, members of the Detroit Stock Exchange.

With Campbell, McCarthy

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH.—Howard L. Palmer has joined the staff of Campbell, McCarthy & Co., Inc., Buhl Building, members of the Detroit Stock Exchange.

Emil Schram Purchases Golden Gloves Ticket



Emil Schram (right), President of the New York Stock Exchange, purchases the first ticket to the elimination contests of the Golden Gloves Bouts to be held at the St. Nicholas Arena for the benefit of the Boys' Club of New York. Handing the ticket to Mr. Schram is James Schnup, a member of the charitable, non-sectarian organization which caters to the wants and needs of 6,200 boys of New York's East Side. Looking on is J. Rankin O'Rourke of Ira Haupt & Co., who is President of the Boys' Club Alumni, sponsors of the charity bouts.

International Monetary Fund Summarizes Transactions to Nov. 28

Exchanges \$433,445,000 of United States dollars and £1,500,000 for other currencies in first nine months of 1947.

According to the financial statement of the International Monetary Fund for the quarter ended Nov. 28, 1947, just released, the organization bought currencies of member countries for U. S. dollars to the amount of \$433,445,000 and bought pounds sterling to the amount of £1,500,000 or the equivalent of \$6,045,000. The total was exchanged for the money of the following seven countries:

Currency Bought	Equiv. Dollars
Chilean Pesos	\$7,500,000.00
Danish Kroner	3,400,000.00
French Francs	125,000,000.00
Mexican Pesos	22,500,000.00
Netherlands Guilders	36,045,000.00
Turkish Liras	5,000,000.00
Pounds Sterling	240,000,000.00
	\$439,445,000.00

In addition, the Fund sold \$24,164.52 of U. S. dollars against gold. The Balance Sheet of the International Monetary Fund as of Nov. 26, 1947 stood as follows (expressed in U. S. dollars):—

ASSETS	U. S. Dollars
Gold With Depositories*	
38,742,962.156 fine ounces (U. S. \$35 per fine ounce)	\$1,356,003,675.46
Balances with Depositories*	881,053,459.98
Securities of Members	
Non-negotiable, noninterest bearing, payable at face value on demand, in members' currencies	4,375,097,266.25
Subscriptions Receivable	
Balances due and payable—members whose par values have been established	\$ 184,465,113.63†
Balances not due until members' par values have been established	1,124,887,500.00
Other Assets	1,309,352,613.63
	231,421.52
Total Assets	\$7,921,738,436.84
LIABILITIES	
Capital—	
Members' authorized subscriptions	\$7,921,500,000.00
Less: Excess of expenditures over income from inception to Nov. 28, 1947	96,910.72
Net capital	7,921,403,089.28
Other liabilities	335,347.56
Total Liabilities	\$7,921,738,436.84

*The gold does not include 10,728,550 fine ounces held in suspense in respect of Paraguay's request to increase its quota. This gold has been accepted subject to certification by the International Bank for Reconstruction and Development that Paraguay's application for a proportionate increase of its subscription in the Bank has been received by the latter. This certification has not yet been received from the International Bank. Furthermore, an amount of 3,476,250.00 Guarantees is not included in the Fund's holdings of currencies for the same reason.

†Includes \$171,516,799.99 due from a new Member, Australia, payment for which was effected during December 1947.

Prices-Profits-Productivity—Three Peas in a Pod

(Continued from page 2) ward once the war was over. The realistic solution for this problem, then and now, is correction of the unsound monetary and fiscal policies which caused it. Price controls, as was amply demonstrated, only made the problem worse by strangling production.

Wages and Prices

Even while this struggle over the continuation of price control was going on, the country was told that industry could raise wages across the board as much as 25% without any increase in prices. We were told that industry could absorb this additional labor cost out of profits. The fact that such profits did not exist was brushed aside as irrelevant. Price rises necessarily followed fast on the heels of each round of the wage increases set off by this inflammatory canard. Even this fact has not deterred the spreading of the illusion that industry has a secret reservoir of profits which it could use, if its managers were not malevolent, either to raise wages further without price increases, or to reduce current prices.

Such has been the preparation of the American mind for the proposal that came in November for governmental authority to control prices and distribution through a system of allocation and rationing of commodities in short supply. We should be devoutly thankful that the Congress so far has resisted these proposals. But Congress can be successful in that resistance only if our people can be brought to realize the deception which has been perpetrated upon them and the objective of this insidious campaign.

Not only have large masses of people been confused and fooled but, surprisingly, many businessmen have become indoctrinated by the poisonous propaganda to which all of us have been subjected. Unwittingly many of them are echoing the distortions and untruths that first came from the collectivists.

The collectivist manipulators of this propaganda campaign to distort the truth about the real meaning of prices and profits know precisely what they are doing. They know that they are striking in a flank attack at the very vitals of American competitive enterprise, which is invulnerable to any frontal assault by them.

They know, even if some businessmen have forgotten, that freely functioning prices are the very essence of American competitive enterprise. They know that the price mechanism is the governor of our enterprise system—that it controls the volume of production and demand; shifts savings into expanding fields; moves workers and materials where production is in the greatest demand and gives consumers what they want.

When prices are subject to control, or administration, by the government, or for that matter by any influence except that of the market place, the functioning of a competitive enterprise economy is thrown out of kilter—shortages or surpluses develop, productive facilities become over-expanded, or, as the case may be, are left undeveloped. When a price for one commodity is artificially repressed, while prices for competitive commodities are permitted to rise, consumer demand shifts. This has happened in the case of oil.

Oil Prices and Production

Today, we in the oil industry are faced with a tight supply-demand situation which can only be solved in the long range through increased production and the removal of the barriers hindering the effective and economic utilization of the industry's vast gas

reserves, which, incidentally, exceed our reserves of crude petroleum. To meet the demands of our customers, we must have a larger supply of crude petroleum. And the essential element in the development of this supply is price.

Time and again in our industry it has been demonstrated that a substantial price increase for crude oil has always been followed by important new discoveries and by increased production from existing fields through the application of other means of recovery. These increases in production, as a result of price increases, have developed into crude oil surpluses with very definite effects upon the price structure, the historical ultimate being substantial price reductions.

Speaking recently in his appearance before the House Interstate and Foreign Commerce Committee, Mr. Walter S. Hallanan, President of Plymouth Oil Company and Chairman of National Petroleum Council, very ably illustrated this point.

Recalling the conditions existing immediately after the first World War, he proved convincingly that a price rise of \$1.40 per barrel from 1919 to 1920, bringing the price of crude oil to \$3.50 a barrel, was sufficient incentive to increase radically the search for new oil. Results proved so abundant as to cause a price reduction of \$1.77 per barrel during the following year, or a decline of 37 cents more per barrel than the original price increase. He further cited five additional instances illustrating the effective functioning of the price and supply relationship which had occurred during the decade through 1931.

Several important new discoveries have been made within the last few months, the first since the recent war years when the price structure was frozen by government order at less than current replacement costs. However, the full effect of these new discoveries on the present supply-demand situation will be some little time in developing. This development is greatly influenced by the tubular goods available to the industry. Today, all indications point to exploratory and development programs being undertaken at a record rate and essentially because price presents an incentive compensating this financially hazardous operation.

Coupled with this retardatory action respecting the price structure of petroleum have been substantial increases in the prices of competitive commodities. Even with the recent price increases in crude petroleum, that commodity still has shown the smallest rise when compared with other raw materials included in the Bureau of Labor Statistics price index. Since the base period of 1926, the average of all raw materials, including crude oil, has shown an increase of 82% compared with 33% for crude petroleum. Now, lest I be misunderstood, I am not attacking the prices of the other commodities included in the price index. However, the effect has been to develop an ever increasing desire on the part of consumers, including industry generally, to enjoy the benefits in heating and energy creation of high quality and comparatively low cost petroleum products.

Thus arbitrary tinkering with prices, whether it is in the direction of putting false bottoms under them or artificially holding them down, disrupts the competitive enterprise system and prevents it from achieving its true objective of serving the public welfare. After all, controlling or administering prices denies the consumer of his economic franchise to buy what he wants.

Irrevocably tied to price in our

economic system are profits, for these are the lifeblood of our free enterprise system. Profits are controlled by price and, in turn, are the mainspring of productivity. In recent months there has been a great deal of discussion about the profits of industry. One hears a plethora of adjectives ascribing to profits the significant blame for the rising prices all consumers pay. Consumers have been led to believe that a substantial and increasing proportion of the dollars they spend is being realized as profits by corporate endeavor.

Much of this error stems from the statement of profits as a percentage of net worth or original investment. Profits, when considered in the proper economic light as a percentage of the dollar of corporate activity, are indicated at sharply lower levels. Taking the official releases of the United States Department of Commerce, net profits as a proportion of the sales dollar show remarkable consistency. In 1929 the figure was 5.4%; in 1941 5.2%, and in 1946 4.7%. During these same periods the figures covering our own industry declined from 10.8% in 1929 to 6.6% in 1941 and to 5.6% in 1946. While we have no completed figures for the year 1947, for all industry, the preliminary estimates indicate 5.8% return for the first nine months of this year.

Even before Federal and state taxes, the combined corporate earnings in 1946 were only 7.9% or approximately 8 cents on each dollar of sales. I am sure you will agree from this comparison that were corporations to forego all profits and the government all taxes on corporate income, the effect on consumer cost of living would, at the best, be relatively insignificant.

All of us realize only too well that the dollars we receive today have greatly shrunk in value in the market place. What, however, is not so generally recognized is that the corporate dollar has no more purchasing power than the dollar of an individual. Now while these corporate profits or net earnings in dollars have, generally speaking, increased, their purchasing power has very substantially decreased. In other words, when industry today undertakes to spend these inflated net earnings dollars it finds they will buy only about one-half as much of the things needed as was possible a few years ago. Viewed in that light we get these profits in proper perspective.

Corporate profits or net earnings are utilized generally in a two-fold manner—they are either distributed to the owners of the business in the form of dividends or are plowed back in the business for its expansion or to replace equipment and facilities that have worn out or become obsolete. A study of the record for the same years I mentioned before—1929, 1941 and 1946—indicates a downward trend in the proportion of net earnings distributed to stockholders, and a correspondingly higher proportion retained by corporations to replace equipment and facilities that have become worn out, and to expand the business in order better to serve the demands of the consuming public.

In 1929, for example, corporations paid out to stockholders 67% of profits after taxes and retained 33%. In 1941, 46% was paid out, and 54% retained. In 1946, stockholders received only 45% and corporations retained 55%. These figures reflect the need of corporate endeavor to retain increasing proportions of net profits to meet the constantly higher cost of replacing old facilities and installing new ones.

A further complication in this regard is the depreciation allowance on facilities permitted by the

Federal Bureau of Internal Revenue. In view of today's price levels, these allowances are insufficient to provide replacement of the facilities when they wear out. Of course, if we intended to liquidate corporate activities—not replace our facilities nor, in our industry, to replenish, by new discoveries, the oil we are using up, then we would have no worry on this score. But liquidation would mean gradual retrenchment instead of expansion, and constantly fewer jobs, until eventually there would be none. Productive capacity, instead of expanding to meet the constantly increasing demands of the American people, would be in the grips of strangulation.

As professional and businessmen and as Americans enjoying the fruits of our free, competitive enterprise system, we must resist these attacks on profits. We have nothing to conceal about our operations. We should be proud of our profits rather than apologetic for them. These profits are the imperative of enterprise. They are the mainspring of creative effort. They are the incentive leading to productivity. And productivity, coupled with sound monetary and fiscal policies is the solution for inflation.

In the title of these remarks you will recall I indicated Prices-Profits-Productivity as being Three Peas in a Pod. So they are, for as peas in a pod are each sep-

arate in themselves, none-the-less each is joined to the other. So, prices, profits, productivity, each has a distinct role to perform in our economic system, but each is tied in to the other. Factors affecting any one of them influence the others.

Do not free market prices and you strangle production.

Eliminate profit incentives and productive capacity is throttled.

This is the aim of the collectivist's new work toward the totalitarian state by distorting and discrediting the fundamentals of successful private enterprise.

But Prices-Profits-Productivity are not only economics. There is a moral side, too, for the pod in which they rest is private enterprise, the basis for the way of life we know as the American way. Freedom of the market place—economic freedom—is inseparably a part of the greater American freedom: freedom of choice. It includes the freedom to choose the way we worship, choose those who govern us, choose where we work, choose the kinds of goods we buy. It is the one system which recognizes and respects the dignity of man, and treats him accordingly.

It is your responsibility and mine to be informed with regard to these economic principles, to understand their functions and to safeguard their free play in order that we may continue to enjoy an ever increasing standard of living.

New Bond Issues of Republic of Peru Now Listed on New York Curb

After failure to pay interest for 16 years, the Republic of Peru announced its intention on Dec. 10, 1947, to resume service with reduced interest payment on two issues of its external loans. The sterling bonds on which service will be resumed are: Peruvian National Loan 6% external sinking fund bonds second series, dated Oct. 1, 1928 and due Oct. 1, 1961 and Honorable Provincial Council of Lima Municipal Loan of 1911 due 1965, which were assumed by Republic of Peru in 1919.

These bonds dated Jan. 1, 1947 and maturing Jan. 1, 1997, are exchangeable for new external sinking fund dollar bonds of 1947 series E at the rate of \$4 principal amount of new bonds for each £1 principal amount of outstanding sterling bonds. Interest will accrue from Jan. 1, 1947 and be payable in cash on the day exchange is made. The new issues are now issued on the New York Curb Market.

Of the \$81,850,000 Peruvian bonds in American investors' hands, only \$5,350,000 had accepted Peru's June 26, 1947 offer up to Dec. 10. The Foreign Bond Holders Protective Council have recommended bondholders not to accept the plan. The aforesaid "Council" is an unofficial auxiliary of the State Department for

mulated by ex-President Herbert Hoover and organized during the late F. D. Roosevelt's administration by the State Department, Treasury Department and Federal Trade Commission. Instead of the 6% and 7% return which Peru originally obligated itself to pay on its external issues sold in this country, the Republic proposes to skip all unpaid interest due for the past 16 years and to pay American bondholders a reduced interest return of only 1% for the first two years, 1½% for the second two years, 2% for the third two years and 2½% to the maturity of the new bonds in 1997. Berkeley Williams of Richmond, Va., who is holder of Peru's bonds, has vigorously opposed the plan ever since its promulgation by certain New York and Peruvian interests. The Republic is extending the terms of its June 23, 1947 offer to American bondholders until Dec. 31, 1948 instead of June 30, 1948 as originally planned.

Wants N. Y. Chamber of Commerce to Support Revival of Gold Standard

(Continued from page 20)

please the Chamber to refer it to the Committee on Finance."

Mr. Proffitt's resolution is as follows:

RESOLVED, that the Committee on Finance and Currency report its recommendations as soon as practicable upon the resolution referred to the said Committee on March 6, 1947, to wit—

"RESOLVED, that the Congress of the United States, now in session, be petitioned to restore the status-quo-ante, 1932, in respect to those currency and banking acts, rewritten upon the accession to power of the New Deal, in that year, which would require the repeal of those sections of laws indicated below:

31 USCA Sec 734
(Gold Reserve Act of 1934, Sec. 8)

31 USCA Sec. 733

(Gold Reserve Act of 1934, Sec. 9)

Pub Res No 10, 6/5/1933

(the 'legal tender' act, which apparently is in conflict with 12 USCA Sec. 413; and would reestablish the coinage of gold and silver, (excluding change, however, in the present prices thereof)."

The Business Outlook

(Continued from first page)

If you are undecided as to how some special business will act in 1948, just consider how that business acted in the years 1938 to 1940. If the business prospered during those years, it will probably show increased activity during 1948. If it suffered, it may show a decline in 1948. There will be no World War III in 1948, but there will be marked preparation for it.

What About Inflation?

During 1948 there will be much talk in Washington about "checking inflation," but any attempts will be largely of the eyewash variety and not fundamental cures. It is sound legislation to allocate materials to the more important industries. Doubtless certain allocations will be instituted during 1948. It also would help to reduce taxes so as to force people to leave the government employ and to produce. The only solution for inflation, however, is to discourage consumption and encourage production. Unfortunately, when the Government attempts to decrease consumption, people get panicky and increase their purchases; while controls tend to reduce production.

All government attempts to interfere with the basic laws of supply and demand fail in their purpose. The only cure for rising prices is to let them rise to a point where production will be so profitable that it will increase to an amount which will be in excess of demand. This causes an abrupt decline in prices and in employment also. This cure is unpopular politically, and we will not see it before Nov. 2, 1948.

Beyond allocating materials and reducing taxes, the only fundamental cures which the government can provide are: (1) putting an embargo on exports, (2) suspending the agricultural price supports, (3) freezing wages and profits, (4) causing interest rates to rise sharply, and (5) reducing government expenses. These movements would be unpopular politically, and I doubt whether we shall see them in 1948.

All of us are selfish. We don't want the Federal Government to shut off the exports of our goods, to suspend price support of our products, to freeze our wages or profits, to raise the rate of interest which we are paying,—or to discharge some relative of ours whom we must support,—even although these things would be for the good of the nation as a whole. Hence, I again say,—"only a spiritual awakening can prevent another severe bust."

Political Leaders Lack Courage

Members of Congress and the Administration know what to do. Chairman Eccles of the Federal Reserve Board has given Congress excellent advice, as reported in the morning papers of Nov. 23. These recommendations, however, are unpopular. Even Congressmen are putting their own selfish desires ahead of the nation's good.

Congressmen are fearful of labor leaders. They are fearful of veterans, thus, unwilling to take a courageous stand on housing and rents. They are fearful of the bankers, in fact, of all pressure groups in Washington. Hence, 1948 will witness more or less of a do-nothing Congress. I visualize that economic conditions will continue about as at present during 1948; but as a fever is necessary to cure many diseases, so economic distress seems necessary to bring people to their senses and to their knees.

The State of Trade and Industry

(Continued from page 5)

been passed on by banks to business enterprises seeking new capital or corporate needs.

The revision in the discount rate represents the first upward since 1933 when it was increased to 3½% from 2½%. The previous rate of 1% had been in effect since August, 1937, and it is worthy of note that the highest it has ever reached was 7% in 1920. The purpose of such a high rate at that time was to check speculation in commodities.

U. S. Mineral Output at New Peak in 1947

The total value of minerals and mineral products produced in the United States and Alaska in 1947 reached an all-time peak of \$12,400,000,000, surpassing its 1946 record by 40%, according to Secretary of the Interior J. A. Krug. Output in 1946 amounted to \$8,850,000,000.

It was also noted, the Secretary reports that a new high in the physical volume of production accompanied the increase in dollar value. Based on preliminary estimates of the Bureau of Mines, the total quantity of minerals produced was approximately 5% over the previous peak output recorded in 1944, and about 13% above 1946 production.

The Secretary cautioned, however, that the nation should not lose sight of the fact that mineral deposits are exhaustible, and that the rate of discovery in the United States is not keeping pace with the rapidly rising output.

STEEL OUTPUT EXCEEDS ALL RECORDS SINCE MAY, 1944

With steelmakers highly vocal about the lack of scrap and making a vigorous attempt to keep scrap prices down, the industry this week will produce steel at a new peacetime high, the "Iron Age," national metal working weekly, currently reports. If the rate this week were computed on a yearly basis, yearly production would amount to more than 89½ million tons of steel ingots, a figure not reached since the all-time high in 1944, the magazine adds.

Some openhearts are shut down throughout the country but the question remains whether they are idle because of the scrap shortage or because of normal repair cycles. There is no doubt that major steel firms are still boycotting the free scrap market and are well on their way in the second round of a buyer's strike against current scrap prices. This action, plus propaganda to the effect that scrap prices are too high, has not caused significant decline in scrap prices, the trade paper states.

Much of the scrap which steel companies have failed to purchase in the open market in the past several months has found its way into steel foundries. Faced with a lack of scrap business from big steel firms, scrap dealers have been forced to turn their effort to foundries and other channels. A reflection of this activity, the "Iron Age" observes, is the average price of No. 1 cast iron scrap this week at Pittsburgh, Philadelphia and Chicago which amounts to \$60.83 a gross ton or almost \$20 a ton more than the average price of pig iron.

Steel producers this week raised the price of nails between \$9 and \$10 a ton and also raised some other wire products. It is estimated that on the basis of production expected this year wire and nail consumers will pay about \$15 million more than they did in 1947. No important base prices were increased within the past week but extra charges on cold-rolled sheets have been advanced in many cases.

Steel consumers may definitely look for higher base prices if steel labor wins an increase in wages—as it is expected to do.

Reverting to the scrap situation, the above trade authority relates the incident of a large motor car maker who last week was embarrassed by his plan of adding one new car to each dealer's quota for every ton of scrap which that dealer supplied. The original plan anticipated that the dealer would do his own collecting around his shop and neighborhood, but some of the smart ones went into the open market and purchased scrap, in some cases at a figure much higher than the current quotations. When the company heard this, attempts were made to keep their dealers out of the scrap market.

The American Iron and Steel Institute announced on Monday of this week the operating rate of steel companies having 94% of the steel-making capacity of the industry will be 98.7% of capacity for the week beginning Jan. 12, 1948. This compares with 97.9% one week ago, 97.8% one month ago and 91.8% one year ago, and represents an increase of 0.8 point, or 0.9%, from the preceding week.

This week's operating rate is equivalent to 1,723,200 tons of steel ingots and castings as against 1,708,600 tons last week, 1,711,400 tons a month ago and 1,607,300 tons one year ago.

FREIGHT LOADINGS 13.8% ABOVE PREVIOUS WEEK

Loadings for the week ended Jan. 3, 1948, which included the New Year holiday totaled 682,038 cars, according to the Association of American Railroads. This was an increase of 82,681 cars or 13.8% above the preceding week, and a decrease of 5,390 cars or 0.8% below the corresponding week in 1947 but an increase of 29,060 cars, or 4.5% above the same week in 1946.

ELECTRIC PRODUCTION SPURTS AFTER LULL

The amount of electrical energy distributed by the electric light and power industry for the week ended Jan. 10, 1948 was 5,277,680,000 kwh., according to the Edison Electric Institute. This was a gain of 409,669,000 kwh. over the 4,868,011,000 kwh. produced in the preceding week which in turn was 38,432,000 kwh. higher than in the week ended Dec. 27, 1947. The current figure, which also exceeded by 8.8% the 4,852,513,000 kwh. turned out in the week ended Jan. 11, 1947, was the ninth week in the history of the industry in which electric production exceeded 5,000,000,000 kwh.

AUTOMOTIVE PRODUCTION RISES SHARPLY IN LATEST WEEK

Estimated output of cars and trucks in the United States and Canada the past week amounted to 112,219 units, "Ward's Automotive Reports" states. This compared with a revised figure of 65,573 units in the preceding week, 64,320 in the like week of 1947, and 115,935 in the similar period of 1941.

Last week's total comprised 82,269 cars and 25,568 trucks built in the U. S. and 2,683 cars and 1,699 trucks in Canada.

BUSINESS FAILURES AGAIN RISE SHARPLY

Rising sharply for the second consecutive week, commercial and industrial failures totaled 87 in the week ending January 8, Dun & Bradstreet, Inc., reports. Up from 58 in the preceding week concerns failing were twice as numerous as in the comparable week last year when 37 failures occurred.

While the number of businesses failing was higher than in the corresponding week of any year since 1943, it was far below the prewar level, since in the same week of 1939, almost 400 failures were reported.

Failures involving liabilities of \$5,000 or more comprised a major part of the week's total. Seventy-five concerns failed with losses of \$5,000 as compared with 52 last week and 32 a year ago. Small failures under \$5,000 doubled the previous week's total, rising from 6 to 12. This compared with 5 failures of small size occurring in the same week a year ago.

WHOLESALE FOOD INDEX OFF SLIGHTLY FROM PEAK

Food price trends were mixed for the week with declines in pork and dairy products exerting a downward influence on the Dun & Bradstreet wholesale food price index which dropped 3 cents to \$7.21 on January 6, from the all-time high of \$7.24 recorded a week earlier. The current figure compares with \$6.20 on the corresponding date a year ago. The chief function of the index is to show the general trend of food prices at the wholesale level.

WHOLESALE COMMODITY INDEX AT NEW POSTWAR HIGH

The daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., moved in a narrow range at peak levels throughout the past week. The index touched a new postwar high of 304.62 on the final day of 1947 and closed at 303.73 on January 6. This compared with 301.48 a week earlier, and with 243.75 on the corresponding date a year ago.

Grain prices were generally stronger last week although volume of trading in both futures and cash markets was at a comparatively low level, mainly due to holiday influences.

Increased hedging pressure and more favorable reports as to the new wheat crop caused some easiness at times but the market rallied at the close, aided by firmer cash markets and reports of a slowing down in farmer liquidation of wheat. Recent heavy snows in parts of the Southwest were said to have furnished good protection to the new winter wheat crop against sudden changes in temperatures. Corn prices made moderate advances in the week, reflecting a lack of country offerings, coupled with reports of severe weather conditions over a large part of the country which will tend to increase farm consumption. Oats displayed independent firmness as offerings in the cash market remained very tight.

Livestock markets closed the old year at peak levels, with cattle reaching an all-time record high and lambs selling at the best prices in nearly six months.

Cotton prices displayed a firm tone during the greater part of last week but showed a somewhat easier tendency at the close of the period. Early strength was imparted to the market by short coverings as well as mill price-fixing against sales of goods in textile markets. Another factor was buying induced by the expectation of a rise in the mid-December parity and the subsequent announcement by the Department of Agriculture of an upward adjustment of 50 points over the revised November figure to 30.38 cents per pound.

This represented a new record high and was more than 4 cents above the parity price of 26.29 cents for December 1946.

Trading was restricted to a large extent by holiday influences and severe weather conditions which necessitated the closing of the New York Cotton Exchange on Saturday. Offerings by farmers fell off while offerings of merchants and shippers remained limited in volume.

RETAIL AND WHOLESALE TRADE SHOW GAINS FOR WEEK AND YEAR AGO

Post-holiday promotional and clearance sales stimulated consumer interest in many types of soft goods; retail dollar volume the past week was moderately above the levels of both the preceding week and the corresponding week a year ago, states Dun & Bradstreet, Inc., in its current survey of trade. Unit volume was somewhat below that of a year ago. Clearance sales generally were not as widespread as a year ago and price reductions were not large. Consumers continued to insist upon quality at moderate prices.

Expensive name-brand radios were reported to be selling well but cheaper models attracted little attention. The heavy demand for high quality furniture and branded major appliances continued to exceed the supply. Hardware, small electrical appliances and automobile supplies and accessories were also heavily purchased.

Snow and freezing weather in many areas encouraged consumers to seek heavy clothing and footwear. Overshoes, rubbers and woolen coats were sought. Rain-repellent coats and woolen accessories were also popular. Promotions of women's formal and print dresses attracted favorable attention and fancy blouses and ballerina skirts continued to be purchased. Some decline occurred in the demand for jewelry, furs and millinery.

Grocery volume was steady and at the high level of the preceding week with nearly all types of foods in large demand.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Jan. 3, 1948, increased by 9% from the like period of last year. This compared with an increase of 27%* in the preceding week. For the four weeks ended Jan. 3, 1948, sales increased by 12% and for the year to date increased by 9%.

Following the recent setback in retail trade here in New York induced by stormy weather, sales volume the past week again found its stride with gains for department stores registering advances of about 10%.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Jan. 3, 1948, decreased 5% below the same period last year. This compared with an increase of 13%* (revised) in the preceding week. For the four weeks ended Jan. 3, 1948, sales increased 7% and for the year to date rose by 9%.

*The large increases shown for this week reflect in part the fact that in 1947 Christmas fell on Thursday and the week therefore included three days of heavy pre-Christmas shopping as compared with two days last year when Christmas fell on Wednesday.

Tomorrow's Markets

Walter Whyte Says—

By WALTER WHYTE

Washington news will continue dominating market picture. Expect more dullness for immediate future.

The possibility I warned against last week became an actuality before the week was over. The dullness, the latent fear and the indecision caused in a large part by the political shenanigans, took their toll during the last few days of the week.

To hope that the Presidential messages and their replies from other politicians has cleared the air, is too much to expect; for as sure as you're reading this there'll be more of the same and it's almost a certainty that even a Republican Congress will pass some legislation that will adversely affect business and industry.

The latest is the Truman budget message. The amount asked for is no surprise; nor is the breakdown mysterious. But how in the name of common sense such a request, even if shaved, can be granted in the face of tax cuts is beyond mathematical reasoning. The big thing is the Marshall Plan. Plenty has been written and said, and more of the same will come without me getting involved in it. My interest, however, is how and when the Marshall Plan (or any similar plan) will affect the stock market. From the action of the market it is apparent there is no hard and fast belief in either the merits or the demerits of the plan. At least no discernable excitement is generated marketwise when the Plan comes up for discussion.

What is perhaps of more immediate importance is the talk of having the Government stop bank lending through allowing interest rates to seek their own level. If that occurs interest rates

would zoom, marketable U. S. bonds would break and hardly a bank with U. S. bond portfolios could go through it without substantial losses. Method would stop inflationary lending. It would also bring about a repetition of the collapse of 1929-32.

All this may not have anything to do with the immediate future of the stock market—in fact if the above comes to pass—it is possible that common stocks would soar. But having seen all kinds of markets I would prefer to make profits on ability and knowledge rather than on somebody else's misery.

Last week I warned to be

prepared for surprises. In most cases you can expect that these surprises will be in the direction of decline. There's a reason for this I haven't the space to go into now. The warning is repeated. Yet despite this I still think that retention of common stock positions is warranted. There will be days, not too far off, when this stand will be open to question. But until other conditions come into play the long side seems to have the most advantages.

More next Thursday.

—Walter Whyte

[The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.]

Which Way Do We Go Now?

(Continued from page 7)

to fully understand what it does to a self respecting human being.

We haven't heard as much about how the people are suffering from cold. Actually, when you start talking to the people over there it's a question which problem they will mention first—their hunger or their lack of fuel. In some areas the total fuel ration is so small that families can only cook once a day and keep one room heated to about 60 or 65 degrees. The other rooms of their houses remain icy cold throughout the winter.

In order to see just how people were living we visited a number of homes. In one such visit the mother told me of one of the questions she faced: She had only enough fuel to give her children one hot meal a day and they had to sleep in a cold room without sufficient cover. Should she cook their porridge at night and put them to bed with a warm meal and let them eat cold bread the next morning, or should she start them off with a hot meal in the morning? She had decided on the former.

One day in Germany on this last trip we decided to eat in restaurants to see what sort of food you could buy there.

Here's what we had for breakfast—and there was no choice, everyone took this menu or nothing:

One slice of black bread, a patty of margarine about half the size of the patties of butter you get here, and one cup of black imitation coffee. The latter was a poor imitation of coffee. It was made out of rye and neither tasted or looked like coffee.

That was our breakfast. There was no cream or sugar for the coffee—not even milk to put in it.

For lunch we went to one of the best looking places we could find. There we got: four small potatoes about the size of walnuts; a pat of meat about two inches square—about two good bites, and a bowl of flour soup—made of flour, water and salt, with no meat base at all.

For dinner in the third town we got: one slice of black bread; a still smaller pat of margarine; cereal—consisting of a coarsely-ground mixture of barley, wheat and oats. The cereal was served without milk or sugar.

That was all we got for a full day in Germany. That was the ration. We couldn't have gotten any more legally, regardless of how much money we had to spend.

Though the situation is worse in Germany than it is in many other parts of Europe, it's bad all over. I was told that if the crops in 1947 were equal to those in 1946, there would be enough food in France, Italy and the U. S.-British zone of

the last two years, and, as I pointed out, the producers of a number of important crops are in trouble now. This program would, nevertheless, call for continued high level production, particularly of grain. It would help solve some of our problems—such as the possibility of a grain surplus; but it would intensify other problems—such as those of soil conservation. It would probably not have much direct effect on foreign demand for our more expensive and more perishable items such as fresh fruits and vegetables. It might help the demand for cotton and tobacco some, but would not prevent surpluses of these items. By encouraging high-level production in our entire economy—industry and agriculture—it would help sustain a good domestic market for farm products. Still more important to our farmers is what this program might mean to our long time foreign markets by helping restore healthy, democratic economies in Western Europe.

Most of the big questions facing agriculture have been raised in the hearings on long-range agricultural programs which the House and Senate committees on agriculture have been conducting for some months.

Incidentally, as you study the testimony given by the Department of Agriculture and the various farm organizations—including the Council of Farmer Cooperatives—it is very interesting to note our recommendations all follow about the same line. There were differences in detail—none of us feels that we have the final answer as to just how every program should be set up—but our basic thinking ran very close together. I think it reflects the high degree to which farmers, their organizations, and their government have worked together in the past. We have shared the same experiences in program development and administration and we drew the same general conclusions from those experiences.

In a preliminary report summarizing the first round of hearings which were held in April, the House committee reported that "witnesses were almost unanimous in agreeing . . . that our long-range policy must be one of abundance."

Policy of Abundance Is Basic

Certainly the Department of Agriculture feels that our basic policy must be a policy of abundance. And I judge from Mr. Davis' testimony that you feel the same way. The Department believes that this is the only practical policy—that we have no alternative. The revolution in production which we have experienced in recent years leads us to question whether a policy of scarcity could be worked effectively today. We can shift productive resources as demand changes, but it would be extremely difficult to slow down the total machinery of today's high-gear agriculture. Furthermore, the facts which we get from the present high level of consumption show us that such a policy is unnecessary. With high-level employment in this country, and even with conservative amounts of agricultural products for export and industrial use we will have a market for the abundance which our farmers can produce. Back in the depression many of us contended that the so-called farm problem was not a problem of over-production but one of under-consumption. What was then merely a theory is now a proven reality demonstrated every day at the dinner tables of America.

Another reason why we should choose no other policy is that our present position of world leadership demands that we lead toward world abundance. Should this nation turn to a policy of controlled scarcity it would be followed by similar policies in other nations, with increasing tariffs, import quotas, blocked currencies and all the other economic barriers which contributed to the depression of the '30s and eventually to World War II.

If we are to follow such a policy of abundance, what programs are needed to carry it out? Should a recession develop and employment and consumer purchasing power fall off, how are we to prevent abundance from turning into surplus? Will we be forced by economic necessity to attempt an over-all cut in farm production, even though it might be contrary to our best judgment? Your organization, along with the

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Department of Agriculture, suggested that our first line of defense under such circumstances should be to try to keep consumption up. We have some valuable experience along this line—we have the direct purchase and distribution program which we have been using for years, particularly for localized surpluses of non-storable commodities; we have the school lunch program which is still reaching only one-third of our school children, and we have had experience with a food stamp plan. Should we build on the latter experience through some sort of food allotment program which would attempt to put a floor under the food consumption of our low income families? The Department has recommended that such a program be instituted very soon on an experimental basis so that we can work out the administrative problems and have it ready for expansion whenever serious recession threatens. We would like very much to have the reaction of your membership to that suggestion.

As a second line of defense we will still need programs to encourage production adjustments and prevent ruinous price drops. Practically all of the testimony agrees on that point. Such programs are needed in good times and bad. Recently, for example, the British cut out all their purchase of flue-cured tobacco in this country. Britain normally takes a big portion of our production. Without immediate price support and acreage allotments to adjust next year's crop to the new demand situation, many of our tobacco farmers might have been seriously hurt. That sort of change in the market picture can disrupt the best possible planning. Unexpected variations in the weather can also create this sort of situation, as witness our potato experience.

If we agree on this general need, there are important questions of detail which must be answered. At what level should price supports be set? Should they be merely high enough to cover average costs of production, or should they be up around 80 or 90%? Should support levels be fairly rigid as they are now, or should they be made flexible so that they can be raised or lowered in order to encourage needed shifts in production?

Price Supports for Perishable Commodities

Price supports for perishable commodities raise some particularly tough questions. If the government is forced to buy large quantities of such things as fresh fruits or vegetables to support prices at a mandatory level it generally leads to unavoidable waste. Our people have well demonstrated that they don't like to see food wasted as long as there are people who would like to consume it. Rather than have mandatory price supports, maybe we should set "price objectives" for such commodities and attempt to maintain those prices through aids to consumption. That's one of the suggestions which we raised for Congress consideration.

Practically all of us seem to agree that the parity concept should be maintained as a measuring stick for farm prices. We likewise seem agreed that it needs some overhauling. But how? Shall we use a 10-year moving average as some have recommended? Should the costs of hired labor be included in figuring parity? Should we include family labor? Different commodity groups vary rather widely on some of these questions. Since your organization represents a rather broad cross section of these groups your recommendations on these points should be exceptionally valuable.

Conservation Program

Our conservation program also needs some serious rethinking. In

terms of the hundreds of years in which soil abuse has been going on and the seriousness of the problem, our present program is just a beginning. We can never feel that we have an adequate conservation program until we have balanced the books on our soil and timber resources. What techniques should be used to speed up this work, and how shall the cost be divided?

We must face the fact that even with good prices, many farm families do not have the land and equipment to make a decent living. According to the 1945 Census of Agriculture, 50% of our farmers produce only 10% of our national farm product. Though some of that 50% were farmers in name only and had outside income, all too many of them were living on what they could eke out of their inadequate farms. It is my firm conviction that we can never have a really healthy agriculture as long as this situation continues. Are we doing enough to help correct this situation? If not, what specific steps should be taken?

There are many other problems shared by all farmers which need attention—rural health facilities, rural schools, social security for farm people, and other factors which make for good living. Should we take steps to bring such facilities and services in rural areas up nearer to parity with those enjoyed by city people?

These are only part of the questions which need answering if our farm program is to make a maximum contribution to an economy of abundance. The need to find the right answer within the next few months places a great responsibility on our farm organizations and the people they serve. We are proud of our record of democratic formulation and administration of agricultural programs. The needs of 1948 will call for the best thinking of all of us.

And I repeat that now, while conditions are still relatively good, is the time to bring our farm program up-to-date. It is much easier to continue prosperity as a going concern than to revive it out of a depression. But neither can be accomplished without planning and work.

So far I have spoken primarily of what we can do through government action to further this sustained abundance. Government is one important tool. Your cooperatives are another. Government action can never completely take the place of cooperative action, and I'll tell you why: Government action tends to come only after the processes of discussion and study have crystallized public opinion; Government can move no faster than public opinion moves. Cooperatives, on the other hand, can pioneer. When a group of farmers decide something needs to be done they frequently don't have to wait until a majority of the nation's voters or its Congressmen decide such action. They can often go ahead and do it through a cooperative. I have seen this happen many times in my own experience. Farmers of a local area start putting in some dairy cattle and need a market for the products. They organize a cooperative and go out and build that market. I have seen it in grain marketing, in getting improved seed or livestock breeds, in a dozen other fields. Farmer cooperatives also can, and do, press for needed legislative changes, thus moving into the forefront of those who crystallize public opinion. Our cooperatives have pioneered for years, and they must have been successful, or they wouldn't be subject to such a big gunned attack today.

I assure you that the needs for cooperative farmer action are just as great today as they were back in the 1800's when they began organizing cooperative marketing and fire insurance enterprises. Maybe the needs today are even

greater. Though many of the problems have changed, their number and importance has not diminished.

So as we look toward the future needs of agriculture, we see the cooperative movement as an important factor in the picture. We believe that the cure for agriculture's—and for the nation's—problems is not less activity by cooperatives, but more. We said as much in our recommendations to Congress, and suggested legislative steps to further strengthen and expand cooperatives.

Summary

In summary, I have tried to outline very briefly three of the big problems which are before the Congress and the American people in 1948—the question of aid to European recovery, the need to stop inflation, and the need for strengthening our agricultural program so that it can best serve our farmers and our consumers

in the years ahead. It should be clear to us all that the decisions which we make on these questions will have far-reaching results. And as we consider these problems, I hope we will keep constantly in mind that the world of 1948 is not the world we knew before the war. We cannot go back to prewar conditions even if we wanted to. Our agriculture, our nation, and the world in which we live, have changed. For better or for worse we are living in a new era. And a new era, like a new year, presents a new starting point. We must understand our world today with its new challenges and its new potentialities. That must be our starting point.

If we begin there and face our problems realistically, I feel confident that we can have continued abundance for all our people and make an increasing contribution to the peace and prosperity of the world.

products, wearing apparel; wines, liquors, beers.

This field of inventory financing will undoubtedly expand in 1948 as the demand for working capital funds reaches new heights.

Coin Machine Vending

A comparatively recent form of financing engaged in by many of the commercial finance companies is the financing of all forms of coin machines. Since the end of the war, merchandising via coin machines has experienced a phenomenal growth. Commercial finance companies have played a considerable part in such growth and look forward to even a greater activity in 1948.

The National Automatic Merchandising Association predicts that within five years coin machines will do a \$2 billion business. In 1947, gross sales through vending machines ran between \$500 millions and \$600 millions. By 1952, it is predicted gross sales for the industry will be running at about \$2 billions a year. These figures stress the importance of this industry in the stiff competitive fields of soft drinks, candy and cigarettes. In use today are 200,000 cigarette machines, 750,000 penny gum and peanut machines, 300,000 nickel candy vendors, many thousands of soft-drink machines and about 350,000 service machines, including scales, parcel lockers, toilet locks, etc.

The Automatic Merchandising Association's head predicts that within five years machines peddling standard items will total 3,100,000—about double the present number. On top of this will be new machines selling different types of stuff—hot coffee, ice cream, fruit juices, hot sandwiches, groceries and nylons.

In the past, a large number of concerns in this field have been able to meet their expansion programs with commercial finance company credit. Every indication is to the effect that their needs in 1948 will be met fully by the commercial finance industry.

Additional Specialized Financial Techniques

In addition to the above methods of financing, there are several other specialized techniques evolved by commercial finance companies in the past that will come into greater prominence in 1948. Most of these companies are now making loans secured by liens on existing machinery and equipment. Some are purchasing, with or without recourse, retail accounts, whether they be open-book accounts or of the so-called budget or installment variety.

In many cases, also, these companies are financing corporate reorganizations and the acquisition of stock on long-term notes of other enterprises.

Executives of the commercial finance industry do not feel that proposed legislative restrictions on extension of credit in 1948 are pertinent to their activities. None of their loans is for speculative purposes in the stock or commodity exchanges or for time payment purchases of consumers goods. They feel that since their extension of business credit finds its way immediately into working capital funds and makes possible a greater production of goods, that they are justified in their belief that commercial finance loans are counteracting inflationary pressures.

The commercial finance industry faces 1948 with optimism. The legitimate credit needs of industry and trade, in many instances, required the specialized techniques of finance companies in the past. Every indication points to a more extensive increase in the use of these techniques in 1948 than in any other period in the history of the industry.

Outlook for Commercial Finance Companies

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resulting increased material costs must be offset by more efficient production and larger volume.

Business concerns, appraising the competitive picture, know that unless they make replacements and have the newest and best machinery and equipment they will find themselves severely handicapped in the competitive contest. At the same time, they find that the securities market is presently unattractive for obtaining equity funds. Also, they cannot afford to cut deeply into their working capital for large machinery and equipment outlays and will prefer to budget payments over a period of months, thus avoiding too deep a drain on working capital. The plan of the commercial finance companies, which enables the individual purchaser to pay for machinery on a scheduled basis, out of income that the machine itself will produce, will meet with ready response.

Looking at it from another angle, manufacturers and distributors of all forms of equipment will find that they cannot permit substantial amounts of their funds to be tied up in customers' installment paper. The plan offered to manufacturers and distributors by commercial finance companies of purchasing installment paper will appeal to large numbers of them.

The services of the commercial finance companies, which are in addition to supplying funds, will be availed of to a greater extent in 1948 than previously. Manufacturers and distributors are not in a position economically to perform the functions of credit investigations and collections. The commercial finance companies have evolved techniques and developed staffs to whom this work is largely second nature. This know-how certainly cannot be duplicated by each individual manufacturer and distributor except at prohibitive expense.

In the past, commercial finance companies have made loans in the following diversified fields:

Automotive equipment, amusement equipment, bakers' and confectionery equipment, barber and beauty parlor equipment, boilers and tanks, book-binding machinery, bottling and glass machinery, butchers' equipment, canning machinery, cigar and cigarette machinery, combustion equipment, concrete mixing machinery, contractors' equipment, dairy equipment, Diesel engines, dental equipment, electrical appliances, electric furnaces, electric motors, floor waxing machinery, gas and oil engines, filing machinery, foundry and steel machinery, hotel equipment, hat blocking machinery,

ery, hoists, cranes and conveyors, excavating machinery, flour mill equipment, heating systems, ice machinery, irrigating equipment, laundry machinery, machine tools, marine equipment, mill supplies, mining equipment, oil burners, oil well equipment, package wrapping equipment, paper mill machinery, musicians' equipment, printing machinery, projecting and sound reproducing equipment, pumps and compressors, refrigerators, road machinery, rubber specialty machinery, sewing machinery, shoe manufacturing and repairing machinery, soda fountains, fumigating and spraying equipment, store fixtures, stoves and ranges, textile machinery and wood-working machinery.

The year 1948 will see an extension even of this wide range.

Inventory Financing

The history of this form of financing shows that for many years about the only inventory loans made were those secured by commodities listed on the Commodity Exchanges. The commercial finance companies proved to the business world that the practice of limiting inventory financing to staples was unnecessarily restricted. They therefore removed the bars to this ready means of financing through the application of the security devices of trust receipts, factors' liens or field warehousing arrangements. It is a rare product or commodity, indeed, either in a finished state or raw material, that does not lend itself to this form of financing. In the last available statistics prior to the war and taken at mid-1941 by the National Bureau of Economic Research, it was revealed that the principal types of product warehoused by five leading field warehousing companies were as follows:

Bags, bagging; books; canned food products; coal, coke; cotton; cheese; cameras; dolls; household machinery and equipment; iron, steel and products; fuel oil, gasoline, petroleum products; furniture, finished wood products; hides, leather, leather products; iron ore; lumber, timber, building supplies; industrial and commercial machinery and equipment; milk powders; musical instruments; meat and meat packing; miscellaneous groceries; miscellaneous agricultural products; miscellaneous hardware; paints, chemicals, drugs; paper, wood pulp; non-ferrous ores; non-ferrous metals and products; seeds, feed, grain, flour; rubber tires, rubber products; stone, clay, glass and products; sugar, syrups; shoes, slippers; toys; tobacco, textile

\$40 Billion Budget Asked by Truman

(Continued from page 6)

this Budget indicate expenditures of \$37.7 billion and receipts of \$45.2 billion. This indicates a surplus of \$7.5 billion which should be used to reduce the public debt.

Our 1949 Budget reflects a number of important decisions involving government policies which deserve special attention.

National Defense Costs

National defense, amounting to \$11 billion, accounts for 28% of the 1949 Budget, as it will in 1948. The net increase over 1948 is \$279 million, which is less than the amount needed to inaugurate the program of universal training. The total for all other defense activities has been held below the 1948 level. Increases in the most essential activities, such as aircraft procurement and civilian reserves, will be offset by economies and reductions elsewhere. This Budget emphasizes progress toward a modern and balanced armed force.

International affairs and finance, amounting to \$7 billion, accounts for 18% of Budget expenditures in 1949 as compared with 15% in 1948. The cost of the new aid programs will be largely counterbalanced by completion or sharp reduction of expenditures for the British loan, UNRRA, post-UNRRA relief and certain other programs. There will therefore be a net increase in this category of less than \$1.5 billion.

The new international program is our answer to an unprecedented challenge. We are undertaking it under conditions basically different from any which we have experienced before. I have repeatedly stressed the critical importance of our aid to European recovery, which represents the bulk of this expenditure. The sums requested are vital to the success of this program.

The budgetary implications of failure to achieve recovery in Europe and other crucial areas deserve additional emphasis. Should failure of these programs result in a further extension of totalitarian rule, we would have to reexamine our security position and take whatever steps might be necessary under the circumstances. The costs of added military strength, if Europe should succumb to totalitarian rule, would far exceed the costs of the program of economic aid now before the Congress.

Expenditures for national defense and international activities

constitute 46% of the total Budget for the fiscal year 1949. The increases in national defense and international aid programs total almost \$1.8 billion, which is close to the increase of the entire Budget over 1948.

All other expenditures of the government in the fiscal year 1949 are estimated at \$21.3 billion, about the same as the 1948 expenditures in these categories. Within this total, which includes \$6.1 billion for veterans, over \$5.2 billion for interest, and nearly \$2 billion for refunds, there are a number of reductions resulting from declining programs and a number of increases to finance activities which should not be deferred.

During the fiscal year 1949, fewer veterans will be requesting educational aid and needing unemployment compensation benefits than in 1948, but expenditures for hospital construction will increase, leaving a net reduction of \$530 million for veterans' activities. This reduction contemplates continuation of existing veterans' programs with the same types of benefits as have been available this year. The surplus property disposal program is nearing completion and under revised legislation should cost about \$200 million less than in the current year.

New Legislative Proposals

New legislative proposals, together with expansions in present programs necessary to carry out the intent of existing laws, account for the increases in expenditures.

Failure to improve our educational system or to expand flood-control work would mean risking the loss of precious resources—human and material. Failure to adopt a program of health insurance would mean that many families will continue to go without adequate medical care. Failure to broaden the coverage of present social insurance and to increase benefits on a permanent basis would mean too much reliance upon relief, whereas more reliance on insurance is our national objective. Failure to adopt a long-range housing program would mean further delay in achieving decent housing standards. Failure to devote needed sums to our atomic plant would mean that we would be derelict in the use of one of our most valuable resources.

Each of these proposed new and expanded programs has been most carefully weighed. All these programs directly support the two

fold objective of building economic and individual strength and health in this nation, and of better preparing this nation to discharge its increased responsibilities in the family of nations.

We are all aware of the imperative necessity for preventing further inflation. Both the expenditure and revenue proposals of this Budget are designed to avoid inflationary effects wherever possible.

To this end, government purchases of materials in short supply are being deferred where feasible. The expansion of government credit and of government guarantees of private credit is being restricted. Further, I am not recommending at this time cost-of-living increases in pay for military and civilian government personnel, nor cost-of-living increases in benefits for our veterans, social insurance beneficiaries, retired Federal employees and other similar groups.

Living Costs

The rapid increase in living costs during the last 18 months has placed a serious burden on these groups. Yet, to offset the cost-of-living increase since the last time pay or benefit rates were advanced for each group would add at least \$2.4 billion to Budget expenditures in 1949—apart from increases that would be paid from the trust funds. This large expenditure would add greatly to the inflationary pressures in our economy.

The wiser approach, which I have proposed to the Congress, is to enact a comprehensive program to hold living costs down. Enactment of that program will give relief not only to Federal personnel and annuitants, but to our citizens generally, in the event that the Congress does not provide controls adequate for this purpose, I may have to recommend further adjustments in pay and benefit rates.

The question of taxation must be considered in the framework of the budgetary program and the danger of further inflation. One of our most effective weapons in fighting inflation is a substantial budget surplus for reduction of the national debt. If we make this protection less effective, we shall have to rely much more heavily on direct price, wage and rationing controls which we all agree should be held to a minimum.

Some readjustment is required to afford relief to many families who are suffering great hardship from the present tax structure. But total receipts should not be reduced and the surpluses for 1948 and 1949 should be used to decrease the national debt.

This budget reveals the magnitude of the problems with which the Federal Government must deal. It demonstrates alike the heavy responsibilities of our international position and our concern for the maintenance of a sound domestic economy. The plain fact is that our budget must remain high until we have met our international responsibilities and can see the way clear to a peaceful and prosperous world. Prudence demands that we plan our national finances in full recognition of this fact.

Budget Receipts

Net tax revenues for the fiscal year 1949 are estimated at \$1.3 billion higher than the present estimate for 1948, and \$3.7 billion higher than in 1947. The estimates assume continuation of the present high levels of business activity and incomes, continued full employment and stable prices close to the present level. These assumptions presuppose an effective anti-inflation program.

Budget receipts, however, will decline from 1948 to 1949, because of an estimated reduction

of \$2 billion in miscellaneous receipts, most of which is due to a decline in receipts from sales of surplus property.

The tax adjustment I am proposing will mean a reduction in personal income taxes and a corresponding increase in corporation taxes. The estimates in the budget for these taxes are based on existing legislation.

Between 1947 and 1948, revenues from corporation and individual income taxes combined increased by \$5.5 billion, more than offsetting the decline of \$3.2 billion in excess profits tax revenues. Between 1948 and 1949, revenues from the two types of income taxes will increase by an added \$1.3 billion. These increases are largely the result of inflation during the past 18 months which has swelled corporation profits and aggregate personal incomes. Because the increase in tax collections lags behind the rise in profits and incomes, the 1948 increase in tax collections will be followed by a further rise in 1949.

Excise tax and employment tax receipts are expected to increase slightly in the fiscal year 1949 as a result of continued high levels of production and income. Receipts from customs, however, have been declining in recent months. The international trade agreements which recently became effective may cause a further slight drop in these receipts in 1949.

The expansion of existing social insurance programs and introduction of a health insurance program, under proposed legislation, will add an estimated \$350 million of employment taxes to gross Budget receipts, but this will all be transferred directly to the trust accounts without reflection in Budget totals.

Retirement of the Public Debt

The public debt on June 30, 1947, was \$258 billion. Budget surpluses of over \$7 billion in the current fiscal year and nearly \$5 billion next year should permit further reduction to \$246 billion by June 30, 1949. As long as employment and income continue at record levels—and especially while inflationary dangers threaten—we must make the most of our opportunity for debt retirement.

The retirement of public debt held by banks, other private institutions and individuals will be considerably greater than the \$12 billion reduction in the total since trust accounts and other government agencies will accumulate about \$6 billion during the two fiscal years. The investment of these accumulations in Federal securities will permit the Treasury to retire securities in the possession of other holders.

In management of the public debt, the major goal will be the achievement of the maximum anti-inflationary effect. This has been our policy since the debt reached its peak in February 1946.

Debt held by the commercial banks and the Federal Reserve banks has been repaid out of excess Treasury balances, the budget surplus, trust fund accumulations and the sale of savings and investment bonds to the public. The whole process reduces the volume of private bank deposits and so combats inflationary pressure.

At the same time, we shall do our utmost to increase voluntary savings in all forms, particularly the purchase of savings bonds.

To curtail bank credit expansion, the Federal Reserve System and the Treasury have progressively tightened the money market. This has been reflected in an adjustment in interest rates and a better balance between short- and long-term rates.

While the anti-inflation program will require higher expenditures, the total for finance, commerce, and industry will fall sharply because the current year total includes the nonrecurring payment of war damage insurance profits to the Treasury.

average interest rate paid by the government on market debt.

Budget Expenditures and Appropriations

The Budget total includes expenditures from the general and special accounts of the Treasury and also the net expenditures from checking accounts of government corporations and enterprises. It does not include trust account expenditures.

Expenditures in Relation to Authorizations—Expenditures in the fiscal year 1949 will exceed appropriations for that year by \$6.7 billion. Of the 1949 expenditures, \$28.4 billion will be made from appropriations recommended in this Budget, including \$5.4 billion under permanent appropriations. Expenditures of more than \$10.5 billion, including \$5 billion for international programs, will be financed by appropriations for 1948 or earlier years. The remaining expenditures of about \$700 million dollars, principally net expenditures of government corporations and credit agencies, will be made under other types of congressional authorizations.

Miscellaneous Expenditures

The Budget also includes recommended new authority for government agencies to make contracts amounting to \$1.9 billion. Before expenditures are made in payment of these contracts, the funds must be provided by appropriations, but this will not be necessary until later years. Within the \$32.9 billion of appropriations recommended for the fiscal year 1949, nearly \$1.7 billion are for the liquidation of prior contract authorizations.

Changes in Expenditures—The major reasons for the changes in the national defense, international, and veterans' programs have already been summarized.

The 1949 Budget expenditures for social welfare, health and security involve increases for the public health and public assistance programs, and initial administrative costs of the proposed health insurance program. Trust account expenditures for benefit payments will also increase.

Expenditures for housing and community facilities decrease. Completion of veterans' re-use housing and curtailment of mortgage purchases more than offset the first-year costs of the proposed long-range housing program.

The increases for education and general research result mainly from the proposed grants by the Federal Government to the states to aid elementary and secondary education, and from the proposed establishment of the National Science Foundation.

The increase in expenditures for agriculture is accounted for mainly by decreased net receipts of the Commodity Credit Corporation. Proposed revisions in price support will bring some savings in 1949. More adequate provision for the conservation and use program is recommended for the 1949 crop year.

Natural resources expenditures will increase chiefly because of higher expenditures for atomic energy, flood control, and reclamation.

Major increases in expenditures for transportation are in grants for highway and airport construction, and direct improvement of rivers and harbors. These are offset in part by lower Maritime Commission expenditures.

While the anti-inflation program will require higher expenditures, the total for finance, commerce, and industry will fall sharply because the current year total includes the nonrecurring payment of war damage insurance profits to the Treasury.

The increase for labor is required to carry out the provisions of the Labor Management Relations Act of 1947, to restore essential services in the Depart-

BUDGET RECEIPTS

[Fiscal years in millions]

Source	Actual 1947	Est. 1948	Est. 1949
Direct taxes on individuals:			
Individual income tax	\$19,629	\$21,951	\$22,506
Estate and gift taxes	779	842	816
Direct taxes on corporations:			
Corporation income tax	6,055	9,222	10,000
Excess profits tax and other	3,621	326	158
Excise tax	7,270	7,320	7,476
Employment taxes:			
Existing legislation	2,039	2,409	2,493
Proposed legislation			350
Customs	494	394	378
Deduct. (appropriations to trust funds):			
Existing legislation	1,459	1,627	1,672
Proposed legislation			350
Subtotal, net tax revenues	\$38,428	\$40,837	\$42,155
Miscellaneous receipts	4,831	4,373	2,322
Budget receipts	\$43,259	\$45,210	\$44,477

BUDGET EXPENDITURES AND APPROPRIATIONS BY MAJOR PROGRAMS

[Fiscal years, in millions]

Program	Expenditures	Appropriations
National defense	1947	1948
International affairs and finance	\$14,281	\$10,746
Veterans' services and benefits	6,540	5,533
Social welfare, health, and security	7,370	6,632
Housing and community facilities	1,379	1,960
Education and general research	403	113
Agriculture and agricultural resources	1,248	614
Natural resource	628	1,179
Transportation and communication	587	1,563
Finance, commerce and industry	238	372
Labor	120	97
General government	1,318	1,473
Interest on the public debt	4,958	5,200
Refunds of receipts	2,897	2,049
Reserve for contingencies		1,990
Adjustment to daily Treasury statement basis	+ 464	200
Total	\$42,505	\$37,728
		\$39,669
		\$32,930

ment of Labor, and to cover increased costs of the public employment offices.

General government expenditures will decrease, chiefly because of lower expenditures for the disposal of surplus property.

Although the public debt will be lower, interest payments will increase somewhat, chiefly as a result of higher accruals on savings bonds as they approach maturity.

Tax refunds will decrease mainly because of lower refunds arising from adjustment of wartime corporate tax liabilities.

In the preparation of this Bud-

get, I directed all departments and agencies to plan to continue their programs for the fiscal year 1949 at or below their operating levels in 1948. Exceptions were made only where activities could no longer be deferred. Many departmental requests to perform desirable services have been refused. Throughout the Federal Government changes in activities will be made to achieve the rigid standards of operating economy which have governed the preparation of this Budget.

hon. Friend the Minister of Health, when he sums up, will be able to deal with any special point which may be raised. We have laid down a program which will be manageable in physical terms, and which we hope will not materially interfere with our attempt to achieve our export task. Do not let us or anyone else overlook the fact that we have done a tremendous amount of new capital work in this country in the last two years. It is a surprisingly large amount, when we bear in mind the circumstances under which the whole country has been laboring. We intend to go forward with a considerable program,

though not so much as we had hoped. In adjusting the plan to our needs, we have tried to maintain an overall balance which will allow us to concentrate upon the most necessary, without wholly neglecting the general pattern of our capital development.

Balances of Payments

I now turn to a review of our balance of payments situation, which is, of course, closely associated with the investment program. Many of the current facts have already been made public. We have had a fairly recent debate in this House on the matter. I will attempt to give the House a sort of rough balance sheet accompanied by some observations as to our future situation. It must always be borne in mind that this is not a short-term problem. It is one which will proceed, perhaps with varying emphasis, far into the future, because it arises out of long-standing and difficult tendencies which have been developing over the years in many other countries besides our own. Indeed, it is a world problem.

We cannot reach a reasonable equilibrium without more settled economic and political conditions throughout the world. All our recent plans and activities have been designed to assist in reducing the size of the problem we have to face. First, the cuts in our imports; second, the forcing up of our exports; then, the capital investment program designed, as I have said, to free our resources; and finally, the recent Finance Bill planned to diminish the inflationary pressure which might otherwise disturb our economy and so force up prices and costs, making it more difficult to find markets for our exports.

Linked with these steps is the development of our own internal resources including, of course agriculture, and those of the sterling area, so as to reduce our dependence upon exports from hard currency countries. The final step is the arrangement of bilateral agreements which will secure us the most valuable use of our exports in acquiring the vital imports which we need.

These are the main elements making for a reasonable hope that we can, in time, achieve an acceptable standard of living for our people, based firmly upon our own economic independence. The Marshall plan, if it is put into operation, will, we hope, help the carrying out of this program; but it can be no substitute for it. Any assistance we derive from that plan will have to be used for the more rapid development of our own resources and those of Europe and the sterling area, and not merely to enable us to enjoy some temporary improvement in our living standards. We must always have in mind that such a plan is temporary, and can only give us the time in which the better to carry out our own long-term arrangements for securing the supplies and markets we need as a permanent and stable basis for our production program.

Mining and agriculture are the two most vital industries which we must man-up to help our balance of payments, and neither can be manned-up without a large access of new housing. Housing is not an added or an unnecessary luxury; it is an essential part of capital equipment necessary to carry out our plans. Quite apart from the question of comfort and convenience for our people, which are in themselves of first class importance, as a mere matter of industrial efficiency, the provision of adequate housing accommodation as quickly as possible is a primary consideration. That is a very good reason why we should not at this moment cut our housing program more than materials compel us to do.

I now turn to a short historical review of our balance of payments position, because it is in the light of the tendencies so disclosed that we must judge our present position. Before 1914 the annual average value of retained imports into

this country at the then level of prices was £610 million. Our own physical exports earned £474 million, leaving an annual deficit of £136 million, which was made up by shipping, with earnings of £95 million, and insurance, banking and other commercial services, with £35 million. This still left a deficit of £15 million which was, however, wholly covered by our investment income of more than £150 million sterling, thus enabling us to enjoy a substantial surplus for re-investment abroad. It was out of this surplus that we developed many areas in the world upon which we could draw for imports of food and raw materials. That general pattern of our policy, however, had one unfortunate result in that it led to the neglect of our own agriculture, a mistake which we must not repeat.

The war of 1914-18 shook the whole structure of our economy. By 1928, our exports were only just over 84% of those in 1913, and our share of world exports by value had fallen from 13.9 to 11.2%. Between 1922 and 1928, our annual deficit on current account on overseas payment averaged £143 million, which was closed by using the greater part of our overseas investment income, thus leaving little or nothing for new overseas investment. Between 1928 and 1938, exports fell still further by 37%, but imports were reduced by only 23%. Fortunately, for us there was, however, in the 1920's a favorable turn in the terms of trade, but the agricultural communities supplying us with our food were deprived of a large part of their current income through the fall in prices of primary products.

Immediately before the last war on a three years' average, we were spending £884 million on imports against earnings of £496 million on physical exports and re-exports an adverse balance in invisible trade of £395 million. Against this, we had our earnings from shipping, insurance, banking, commercial services, and so on, and, in particular, £203 million from overseas investments, leaving us with an overall debit balance of about £45 million. We were then living beyond our current income I have given the House these figures because it is essential to appreciate these long existing tendencies towards the worsening of our position as regards the balance of our overseas payments.

Impact of War

It was upon this precariously balanced position that the war had its tremendous impact. There were three particular consequences affecting our balance of payments: the concentration of the whole of our productive effort on the war; the cutting to the bone of our exports, with all the long-term consequences of disturbance of prewar trade channels which was necessarily involved, and the destruction of half our Merchant Marine, together with the loss of much of our income from overseas investments. We have rebuilt a large part of our shipping. Indeed, we are building at present in British yards more tonnage than the rest of the world put together. But we still have not enough ships for international trade and, therefore, we are unable to set free enough ships to go out and pick up the lucrative trade between other countries which was the basis of our prewar shipping income.

The income from commercial services, such as banking and insurance, has stood up well, but it has not increased proportionately to the changed value of money. On our overseas investments, we have suffered most sharply. During the war we sold or facilitated the repatriation of overseas investments to the total of over £1,100 million sterling. That means that by far the largest single source available to us before the war for closing the vis-

ible trade deficit on current account has been seriously reduced. Moreover, as things turned out, we felt this loss particularly, because a substantial part of it represented the loss of dollar income from dollar securities.

Nor, indeed, did the process of the sale of investments cease with the end of the war. We have sold many public utilities in Latin America including, of course, the Argentine railways, and we have sold other lucrative interests elsewhere. It is sometimes suggested that we ought to realize still more of our overseas assets to meet our current bills, but the man who pays his current bills out of capital while making no effort to reduce his expenditure or increase his income faces a bad end. That is equally true of nations and particularly true of our own. As it is, we can only estimate £70 million for 1948 as a return from our overseas investments. In the light of this situation, our resources take on an added importance, for they alone stand between the sterling area and possible bankruptcy.

The Sterling Area

In some parts of the world a mystery still hangs around the words "sterling area." Indeed, it is by some regarded as a sinister phenomenon. In fact, it is a very old system and is the application to the financial arrangements between the members of the sterling area of the principles of a domestic clearing banking system. For many years past the countries in the sterling area have maintained practically all their reserves in London and paid into London foreign exchange earnings, calling on London in turn to provide such external resources as they required for their current trade. This has enabled the sterling area like the clearing bank to ensure that all the money in the system was made to do its work.

Through this system we have been able to finance development overseas, and we have, in our turn, received a very substantial contribution to our own foreign exchange resources. Before the war it was a completely free system. During the war we obtained the agreement of the members of the sterling area that they would continue to pay into the system their dollar earnings and they would limit their dollar expenditure to what was essential for their own contribution to the war effort. This voluntary limitation was reinforced by the difficulties of supplies of shipping, but broadly we left it to the local controls to determine in the light of the general policy their claim upon the sterling area resources for dollars. Now, of course, this system is under a great strain. The current dollar earnings of the sterling area though significant are much below their current dollar needs. This would mean, if it were to continue, a very heavy drain on our reserves.

We must remember when we speak of our reserves we are speaking of the reserves of all countries in the sterling area. As the House knows, we were compelled to spend the American loan much more rapidly than either we or the Americans had foreseen when it was negotiated in 1945. The rate of expenditure was influenced by two main factors—the increasing dependence by practically all countries for essential supplies upon the North American continent and the very sharp rise of prices in those countries. The final reserves of the sterling area now, therefore, consist of our existing gold and dollar reserves. At the end of this year we expect our reserves to stand at about a figure of £500 million sterling; that is, after bringing into account the first \$100 million of the remaining United States credit and the remainder of the gold that we shall

(Continued on page 36)

Britain's Position

(Continued from page 12)

and by the measures we have taken to steer manpower away from less essential industries. In all these ways the claim of less essential consumption on our resources has been heavily cut back. Our next step was to get our investment cost cut according to the cloth available, while still maintaining as good and as sound a design as possible, bearing in mind that certain overseas investments, such as the developments within the sterling area, were an essential part of the eventual solution of our difficulties.

Physical Assets

The real significance of the White Paper is not in the financial terms which have had to be used to sum up the results of many dissimilar programs, but in the actual decisions as to physical assets and labor which are to be found in the appendices. The new program will, we hope, be more realistic than the earlier ones in terms of the resources available. If all the various projects planned for 1948 had proceeded according to their schedules, the volume of investment would have mounted to a very large figure, certainly far in excess of £1,600 million.

If the manpower and other physical resources we had originally expected to be able to devote to work on investment projects in 1948 could have been made available, they would, we estimate, have produced about £1,600 million worth of physical investment; but when we had made provision for increased export, and for the needs to expand agriculture and other industries at home in order to save imports, it was clear that this quantity of resources could not be found for investment. It has, therefore, been reduced to the level of £1,320 million a year at the end of 1948, or an average over the year of £1,420 million. Moreover, we must see that the number of new projects proceeded with is limited to ensuring that the more important schemes may be completed as rapidly as possible. We cannot afford at the present time to have more of our resources locked up in work in progress than is essential to the ordinary flow of construction.

There are two main criticisms which have been made. First, that the postponements and reductions are not enough in total, and, second, that more should be spent upon re-equipping our industries, which implies, of course, still severer cuts in other investments. In this respect, the chief suggestion is that housing should have been further cut. It has been suggested that my right hon. Friend the Minister of Health has managed by his vigorous insistence to torpedo the program. As regards the first criticism, we shall see as it develops next year how far we have enabled the export program to be carried out by what we have done.

Mobility of Labor

The present White Paper on investment is not necessarily a final document, in the sense that if the necessity supervenes we may have to reconsider it. It would be un-

Britain's Position

(Continued from page 35)

obtain from South Africa under the existing gold contract.

At the beginning of 1948 we shall have available to us in addition £75 million sterling, representing the rest of the United States credit and £70 million, being the approximate amount of the undrawn part of the Canadian credit. We also hope to see in January £80 million in gold under the gold loan from South Africa. We have not in sight any other accruals to those reserves for the first part of 1948. We can look forward in the latter part of 1948 to some reduction in the drain on us for dollars if the Marshall aid scheme is by then in full operation.

On Oct. 23 I commented on the momentous consequences for democratic civilization all over the world of the discussions then proceeding at Washington. Since then, the U. S. Government have taken matters further. Interim aid for France and Italy has been voted and we expect very shortly to see the text of the U. S. Government bill giving a clear outline of the form and scope of Mr. Marshall's great project. As I have already said, we must in the first place use the help that comes to us, if it comes, to strengthen the foundations of our economic position rather than have any immediate alleviations of our consumption standards.

Against the reserves which I have just described, we have external liabilities of £5,300 million of which £3,550 million represents the sterling balances accumulated by our creditors during the war and as a direct result of the war; £855 million represents the existing liability in respect of the United States credit and £235 million the liabilities on the Canadian credit. Honorable members will be interested perhaps to have a few figures about the rate of the drain on our gold and dollar reserves since the suspension of convertibility on Aug. 20. In the four weeks ending Sept. 20 the weekly drain averaged more than \$90 million. In the following four weeks ending Oct. 18, it fell to the figure of about \$65 million. Since then it has run at the rate of rather less than \$55 million a week.

These figures take into account all our transactions in gold. We have had to make considerable sales of gold and these will have to continue, we hope in rapidly diminishing quantities, despite the release of the \$400 million credit for which we are so grateful to our American friends. During October, we sold £35 million of gold, of which £30 million was in the United States, and we received £12.2 million worth of gold, of which a little over £10 million was from South Africa, showing a net loss of gold of £22.8 million. In November, we sold £47.8 million, of which £40 million was in the United States, and nearly £5 million to Belgium towards clearing up the balance under the then existing payment agreement. During November, we purchased £11.3 million of gold, of which £10 million was from South Africa, showing a net loss of gold of £36.5 million.

Policies of Other Sterling Countries

It is a matter of convenience to some extent whether on any particular occasion we draw on our gold or on the dollars which are available to us. The figures which I quoted a few moments ago to illustrate the rate of drain on our total reserves of gold and dollars show that this total drain is being reduced, but we must reduce it still further if we are to keep within the margin of reasonable safety. Mere arithmetic will show that it is impossible for us to continue at that rate. The various governments of the

countries in the sterling area have now announced their policies of further restrictions in dollar imports.

These policies which have been imposed by the governments of the countries in the sterling area mean inconvenience, and perhaps even worse, for their peoples, but they are accepted as part of the combined policy of the whole sterling area, and we are grateful to them for their generous cooperation. We, ourselves, will have to watch with very great care every cent of our dollar expenditures. There will have to be further sales of gold to pay for dollar imports and we shall not be able to avoid some drawing down of the total figure of our reserves during 1948.

While the policies for the reduction of dollar imports are being brought into effect, these basic reserves of the sterling area have immediately to carry the whole shock of the present difficult world situation. We must remember all the contingencies for which these reserves must provide, not only in the immediate months ahead of us but as part of the whole stability of the sterling area system. No one is in greater danger of losing his independence of action than the man who has no reserves upon which to fall back.

The maintenance and strengthening of these reserves must, therefore, be a major preoccupation of our external economic policy and we shall have to postpone alleviation of our own internal position until we have done our best to make this policy secure. It is because of our own action and policy that we, in our turn, are entitled to ask other members of the sterling area to help us in this primary task, even at the cost of personal sacrifice. But we cannot build a healthy economy upon restrictions on imports or a jealous care for our reserves; we must increase our foreign exchange income and retain the confidence of other countries in the stability of our own economy, not by credit from abroad but by our own efforts in production.

Export-Import Plans

I therefore turn to see how we are progressing with our export-import plans. There are so many uncertainties and incalculables that it is not possible to make any accurate forecast. Who will say what the terms of trade will be, or what will be the outcome of the many bilateral negotiations upon which we are now, or shortly shall be, engaged? Here, let me interpolate a word as to the progress of these various negotiations. As the House knows, we are having talks with those countries with whom we have important trade or financial arrangements. I will not give details of all of those, but perhaps I may mention a few. The special agreement as to food grains which we hope to conclude with Russia will be most helpful in spreading our area of supply. We have, I am very glad to say, reached an agreement with Canada, and an agreed announcement of its terms is to be made later this evening.

With regard to Germany, an agreement with the United States of America as to the finances of the joint zone was announced yesterday. We no longer have direct dollar liability for German importation.

We no longer have direct dollar liability for German requirements. We shall be paying in sterling for sterling imports into Germany to the extent laid down, and our only liability to pay dollars arises if the balance of the current trade with the combined zone moves substantially against us. We have undertaken to convert the joint agency's sterling balance into dollars if necessary—it now stands at £24 million sterling—but it is

the expressed intention of the U. S. Administration that, if possible, we should not be called upon to convert more than £10 million in 1948. Among other countries with whom talks are proceeding at the present time are the Argentine, Egypt, Holland and Yugoslavia. Agreement has been reached with Sweden. I am very glad to say, and an announcement will be made in the course of the next day or two.

For 1948, we shall require about £1,600 million worth of imports on the reduced scale of living, but allowing for some increases in prices, and we shall have an invisible import of about another £100 million of government expenditure overseas. For exports and re-exports, if we fulfill the export program we should obtain £1,550 million; and from shipping, oil and services, together with income from overseas investments, we should get another £130 million net. This would give us substantially an over-all balance, but even if we do all that, there is still within this total balance a deficit with the Western Hemisphere of nearly £300 million sterling which, of course, cannot be set off against our surplus from the other areas. That can only be tackled by cutting off imports from or extending exports to the Western Hemisphere.

There is absolutely no chance of our arriving anywhere near a balance of visible exports with the United States of America. We never have done so since the days when we supplied the capital goods to develop America, and our available exports are not, in the main, such as the United States of America wants or can take. We have always relied upon three-cornered trade for the balance. We must, therefore, continue to encourage that three-cornered trade and hope that the sterling area as a whole will be able to increase its exports into the United States of America, or that Europe may do so, with whom as a result of the Marshall Plan we may be even more closely linked than before. We are, indeed, now actively studying how that closer integration of our economy with Europe may be brought about.

While these long-term policies of developing other sources of supply for ourselves, and a greater volume of exports to the Western Hemisphere from this and other countries, are being put into operation, we must secure that the drain on our reserves is reduced to the lowest possible point. We must make every effort we can to maintain our reserves for the reasons I have already given to the House. Apart from economies on imports, which we have already imposed almost to the limit of our capacity, we must rely on a greater volume of exports, and that means an over-all increase in production. Here, there are some encouraging signs.

Industrial Output

The resumption of coal exports was announced yesterday by my right hon. Friend the Minister of Fuel and Power. That is indeed an important step forward, not because of the benefit it brings to us alone, but because it will be of great help to our European friends and decrease their dependence on the United States for dollar coal. It is only a small beginning, but even 10 million tons of coal per annum is something well worth-while and we hope that when the winter difficulties are over we shall be able to increase that figure.

The rising output so far is, of course, almost entirely the result of the efforts of the miners themselves. We have in hand, as well, a very big program of reconstruction and mechanization, the effects of which have scarcely begun to show. But, while there are good grounds for optimism in the long run, we are by no means out of the wood, so far as coal produc-

tion is concerned, and we must try to keep a balanced outlook on the results. They are bound to vary with the seasons, weather conditions and other factors, and we should not be wildly excited at every increase or inordinately cast down by every decrease. If we can maintain the present tempo, and gradually improve it, we shall be able to get a really satisfactory export program next year. I can assure the House that nothing will help our acquisition of foodstuffs and raw materials more than our having coal with which to purchase them. We shall not waste a ton of that coal by allowing it to go for anything that is not of real and vital value to us.

In steel, too, we have been doing exceedingly well, and I have no doubt that we shall continue to do so provided we can keep up the flow of scrap and pig iron. In both of these we are running on a very narrow margin and I cannot emphasize too strongly the most urgent need for every factory and workshop to mobilize its scrap without delay. The whole output of our great engineering industry depends on the flow of steel, and that, in its turn, depends on the flow of scrap.

In textiles, we can report a really encouraging increase. For a long time output remained almost stationary, but now, at last, we have a quickening response to our situation, both in the numbers in the industry and in output, as the figures show. The number of persons employed in our textile industries in June of this year was 756,000. By November, the figure had risen to 784,000. The weekly average output of cotton yarns was 12,560,000 yards at the end of June and had risen to 14,730,000 by November. The output of woven wool fabrics rose from 20 million yards in June to 23,870,000 by the end of November. Nonetheless, to meet our ultimate targets, we have still a long way to go.

In engineering, we have had our rising output checked, unfortunately, from time to time by material shortages, but we hope that the revision of the investment program will bring relief in that respect. Let me give the House a few figures: In June, this year we turned out 56 main-line locomotives; in October, 76. The output of railway wagons, which stood at 2,962 in June, rose to 4,119 in October. The value of the June production of internal combustion engines was £1,618,000. By October that figure had risen to £2,177,000. The corresponding figures for hosiery machinery show an increase from £235,000 to £363,000.

Agricultural machinery, in which we have the foundation of a most important new export industry, is being turned out in increasing quantities. I will take tractors as one example. Production amounted in the first quarter of this year to 8,308, and by the third quarter had risen to 14,318. I have mentioned only some of the main industries on which our exports are largely based. Other industries, too, are contributing to our increased production, so that the over-all picture shows an encouraging revival of our internal industrial activities.

Export Problems

When we come to examine the export position, that is more difficult and not quite so encouraging. There are two important factors: One is within our control and the other is not within our control. The first is cost. We have either reached, or are reaching, a buyers' market condition in many lines of goods. This means that the price factor becomes more and more important. We are already losing sales overseas in some of the most desirable markets, because of our price level, and we must, therefore, do everything in our power to prevent it rising and, indeed, to bring it down. The second factor is the

import restrictions imposed on our goods by other countries who are as short of foreign exchange as we are. Here, we can only do our best to persuade them to admit as large a range of our goods as possible, and that is the constant preoccupation of my right hon. Friend the President of the Board of Trade in all the bilateral negotiations he is carrying out.

In spite of these difficulties, we must not relax for a moment our efforts to develop the types of manufactures which have assured markets and to switch our exports as much as possible from soft to hard currency markets. We must sell everything we can for hard currency and we must not allow our preference for habitual methods and traditional markets to deflect us from this paramount objective. This is particularly true of textiles where the conditions of the industry—surplus plant, a plentiful supply of raw materials and a market, particularly in North America—are favorable to an even more intensified export drive.

Further Struggle Ahead

I have attempted to give a rapid and rough sketch of our present position, with its prospects, because I believe that the House and the country would wish to know what these prospects were. I might, perhaps, sum up the position in this way: So far as our internal efforts are concerned, we can face next year with quiet confidence, based on the experience of the last few months. A few weeks ago, I said that Britain was on the move. Now we can see clearly the steps forward that our country has already taken. Our people have responded magnificently, on all sides, to the demands which have been made upon them. I see no reason, short of a catastrophic or unforeseen happening, why we should not progress steadily to an ever-increasing volume of production in all our main lines of output—coal, steel, agricultural machinery, textiles and the rest. But we must remember that we are by no means at the end of the road. The progress I have mentioned, satisfactory as it is, is no more than an approach to the level of production that we must achieve.

When we turn to the external scene we still have great cause for anxiety. I have told the House the extent of our reserves and that they do not allow much margin for maneuver. The dollar unbalance is proving most stubborn to reduce, despite the efforts of ourselves and our fellow members of the sterling group. Search as we may, there are still large quantities of foodstuffs and raw materials for which there is no other source than the Western Hemisphere, where prices are still rising, thus worsening the terms of trade against us. The growing difficulties of international commerce are tending to narrow our opportunities of getting our exports into the markets where we need to sell them, though we hope that this situation will be relieved as a result of our bilateral agreements.

We are indeed fighting with all the means at our disposal, including a reduction in our standard of living—most unwillingly, but courageously accepted by our people—against the dollar deficit, but circumstances are still weighted against us. We need to employ every resource available and to make every economy in our own use of our own material. We shall continue our immediate struggle, which cannot be a short one, and we shall, at the same time, lay plans and put them into execution to provide a longer-term solution of our difficulties upon the lines that I indicated earlier. There is no need for pessimism so long as we each do our best, but we must realize that this is a long, uphill struggle which, with the help of our friends overseas, we can and shall win through.

Indications of Current Business Activity

The following statistical tabulations cover production and other figures for the latest week or month available (dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date):

AMERICAN IRON AND STEEL INSTITUTE:		Latest Week	Previous Week	Month Ago	Year Ago	Latest Month	Previous Month	Year Ago
Indicated steel operations (percent of capacity)	Jan. 18	98.7	97.9	97.8	91.8			
Equivalent to—								
Steel ingots and castings produced (net tons)	Jan. 18	1,723,200	1,708,600	1,711,400	1,607,300			
AMERICAN PETROLEUM INSTITUTE:								
Crude oil output—daily average (bbls. of 42 gallons each)	Jan. 3	5,291,237	5,285,440	5,264,789	4,648,750			
Crude runs to stills—daily average (bbls.)	Jan. 3	5,637,000	5,543,000	5,269,000	4,854,000			
Gasoline output (bbls.)	Jan. 3	17,163,000	17,013,000	16,051,000	15,156,000			
Kerosine output (bbls.)	Jan. 3	2,346,000	2,334,000	2,113,000	2,016,000			
Gas oil and distillate fuel oil output (bbls.)	Jan. 3	7,405,000	7,041,000	6,525,000	5,592,000			
Residual fuel oil output (bbls.)	Jan. 3	9,392,000	9,698,000	8,749,000	8,360,000			
Stocks at refineries, at bulk terminals, in transit and in pipe lines—								
Finished and unfinished gasoline (bbls.) at	Jan. 3	94,099,000	91,269,000	86,968,000	93,447,000			
Kerosine (bbls.) at	Jan. 3	15,983,000	*16,293,000	19,273,000	16,900,000			
Gas oil and distillate fuel oil (bbls.) at	Jan. 3	50,038,000	50,324,000	58,241,000	59,121,000			
Residual fuel oil (bbls.) at	Jan. 3	51,322,000	51,896,000	55,556,000	52,710,000			
ASSOCIATION OF AMERICAN RAILROADS:								
Revenue freight loaded (number of cars)	Jan. 3	682,038	599,357	878,588	687,428			
Revenue freight rec'd from connections (number of cars)	Jan. 3	544,621	641,578	699,898	570,976			
CIVIL ENGINEERING CONSTRUCTION, ENGINEERING NEWS RECORD:								
Total U. S. construction	Jan. 8	\$85,675,000	\$54,364,000	\$95,623,000	\$90,433,000			
Private construction	Jan. 8	34,834,000	26,057,000	29,589,000	54,459,000			
Public construction	Jan. 8	50,841,000	28,307,000	66,034,000	35,974,000			
State and municipal	Jan. 8	38,747,000	23,611,000	37,226,000	26,736,000			
Federal	Jan. 8	12,094,000	4,696,000	28,808,000	9,238,000			
COAL OUTPUT (U. S. BUREAU OF MINES):								
Bituminous coal and lignite (tons)	Jan. 3	11,550,000	*8,500,000	13,300,000	11,489,000			
Pennsylvania anthracite (tons)	Jan. 3	784,000	746,000	1,181,000	881,000			
Beehive coke (tons)	Jan. 3	128,300	103,500	141,600	108,200			
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100		Jan. 3	205	357	508	188		
EDISON ELECTRIC INSTITUTE:								
Electric output (in 000 kwh.)	Jan. 10	5,277,680	4,868,011	5,327,470	4,852,513			
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.:		Jan. 8	87	58	87	37		
IRON AGE COMPOSITE PRICES:								
Finished steel (per lb.)	Jan. 6	3.18925c	3.18925c	3.18925c	2.83599c			
Pig iron (per gross ton)	Jan. 6	\$39.00	\$37.98	\$37.06	\$30.14			
Scrap steel (per gross ton)	Jan. 6	\$40.00	\$40.00	\$40.25	\$31.17			
METAL PRICES (E. & M. J. QUOTATIONS):								
Electrolytic copper—								
Domestic refinery at	Jan. 7	21.200c	21.200c	21.200c	19.225c			
Export refinery at	Jan. 7	21.575c	21.425c	21.525c	19.800c			
Straits tin (New York) at	Jan. 7	94.000c	94.000c	80.000c	70.000c			
Lead (New York) at	Jan. 7	15.000c	15.000c	15.000c	13.000c			
Lead (St. Louis) at	Jan. 7	14.800c	14.800c	14.800c	12.800c			
Zinc (East St. Louis) at	Jan. 7	10.500c	10.500c	10.500c	10.500c			
MOODY'S BOND PRICES DAILY AVERAGES:								
U. S. Govt. Bonds	Jan. 13	100.69	100.73	101.84	104.21			
Average corporate	Jan. 13	110.88	110.52	110.88	117.20			
Aaa	Jan. 13	116.22	115.82	115.82	121.67			
Aa	Jan. 13	114.08	114.08	114.46	119.82			
A	Jan. 13	109.79	109.60	110.34	117.40			
Baa	Jan. 13	103.80	103.30	103.80	110.5c			
Railroad Group	Jan. 13	105.34	104.66	105.52	113.1c			
Public Utilities Group	Jan. 13	112.56	112.37	112.75	118.4c			
Industrials Group	Jan. 13	114.85	114.85	114.85	120.4c			
MOODY'S BOND YIELD DAILY AVERAGES:								
U. S. Govt. Bonds	Jan. 13	2.45	2.45	2.38	2.22			
Average corporate	Jan. 13	3.12	3.14	3.12	2.78			
Aaa	Jan. 13	2.84	2.86	2.86	2.57			
Aa	Jan. 13	2.95	2.95	2.93	2.66			
A	Jan. 13	3.18	3.19	3.15	2.78			
Baa	Jan. 13	3.52	3.55	3.52	3.14			
Railroad Group	Jan. 13	3.43	3.47	3.42	3.00			
Public Utilities Group	Jan. 13	3.03	3.04	3.02	2.73			
Industrials Group	Jan. 13	2.91	2.91	2.91	2.63			
MOODY'S COMMODITY INDEX		Jan. 13	455.4	448.1	455.3	376.3		
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUP—1935-39=100:								
Foods	Jan. 10	244.0	242.1	237.9	216.2			
Fats and oils	Jan. 10	289.2	280.0	275.6	270.4			
Farm products	Jan. 10	279.6	278.6	274.9	229.2			
Cotton	Jan. 10	337.1	341.9	342.4	316.1			
Grains	Jan. 10	310.8	305.3	315.2	199.9			
Livestock	Jan. 10	270.1	269.1	260.1	226.7			
Fuels	Jan. 10	216.0	*215.7	198.2	157.6			
Miscellaneous commodities	Jan. 10	178.8	179.9	178.1	154.3			
Textiles	Jan. 10	220.4	220.6	226.0	216.6			
Metals	Jan. 10	161.0	160.8	159.3	142.2			
Building materials	Jan. 10	236.2	236.3	276.4	215.6			
Chemicals and drugs	Jan. 10	154.5	156.4	156.4	153.3			
Fertilizer materials	Jan. 10	137.7	*137.7	136.8	125.7			
Fertilizers	Jan. 10	141.8	141.8	140.6	129.7			
Farm machinery	Jan. 10	134.5	134.5	129.3	120.8			
All groups combined	Jan. 10	226.0	*225.3	219.4	191.1			
NATIONAL PAPERBOARD ASSOCIATION:								
Orders received (tons)	Jan. 3	187,093	114,444	229,231	196,927			
Production (tons)	Jan. 3	136,219	126,659	179,582	142,338			
Percentage of activity	Jan. 3	78	71	98	85			
Unfilled orders (tons) at	Jan. 3	452,124	406,738	466,628	588,406			
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100		Jan. 9	150.6	149.4	150.7	151.0		
WHOLESALE PRICES—U. S. DEPT. LABOR—192								

Price Making In a Democracy

(Continued from page 4)

quired to sell at a price without your consent fixed by someone in the line of production?" The answer was "at least 30% of the items."

Producers who insist that the marketing of their products shall be done in a way which represents their requirements rather than what the retailer knows to be the consumers' requirements, frequently result in enslaving the market!

Competition—Competition is an easily mouthed word in this country. But is it competition to set specific retail price lines, so that an article which cost the retailer \$10.75 must be sold for \$16.75? And while the merchant may have some leeway over the price line for clearance or seasonal distress periods, if he attempted to be more freely competitive in price at other times, it would be difficult for him to secure goods in a period in which there was an under-supply. Price "fixing" is a hurt to the economy.

Democracy means the right to choose, as well as the right to buy. It is for this reason that our economy is favorably contrasted with almost every other economy in the world; and for this reason it has had a turnover and an element of dynamics unequalled anywhere else. But this was achieved by a freer market, and to the extent that our market is free, to that extent will it continue to be achieved. Goods improperly restrained from coming into the market result in a deprivation of the economic liberty of the individual—and this applies not only to consumer goods, but also to raw materials, to heavy goods and to capital goods.

Rentals and Long-Term Leases

There is the matter of rentals caused by competition for the limited number of desirable central locations and long-term leases which may, or may not, take into consideration the gradual decentralization of custom and trade. These have a serious impact on the retail dollar.

The percentage lease, which grew up during the depression, has served to inflate the price structure and returns to owners are too frequently disproportionate to the real value of their properties. The percentage lease does not merely give to the land-owner a return on his investment—it more nearly constitutes a partnership with the merchant and an added burden on the buying power of the community.

While there is a natural opportunity inherent in the site of a store, sales volume depends upon the resourcefulness of the merchant and the capital he invests. Does the percentage lease encroach upon the merchant's power to raise wages or reduce prices?

Since we moved up to new economic plateaus because a worker takes so much more of the national product now as compared with prewar, would it be timely to inquire whether the percentage lease attacks a normal power of consumption?

Cooperation

There is a vital need of greater cooperation between the makers of yardage and garments, and the makers of sales. The lack of this is reflected in the effect on the price of fashion goods. There seems to be little faith on the part of the mill converters, the cutters or manufacturers, as well as the retailers. No one is willing to take a chance and order goods in time. The result is some goods are delivered too late, causing markdowns and losses which must be compensated for in the price of the goods arriving on time.

All of these problems can be dealt with in periodic discussions which may help to coordinate the

activities of each group, at the same time working out economies in production, stemming from a better standardization of goods and from the removal of wastes which find their way into the price. In a world which needs production so badly, we must strive unceasingly from year to year to find ways and means to accomplish this.

Engineered Approach to Consumption of Transaction

Today's prices represent an inflated expense dollar. There must be greater production in the distributive fields which in this respect have not done as well as manufacturing.

There is also the need of management and personnel working together to simplify procedures so as to produce a better, more efficient and pleasant job; a job in which the employee shares with management the creative character of performance. This not only makes for efficiency, but like all good things reaps a good by-product; and this is the dignified status of the employee, who achieves a sense of personal worth and pride of achievement, rather than the feeling that he is only a cog-in-the-wheel.

1948

Nineteen-forty-eight will be a fateful year, a year of great problems, but also a year of great opportunities. It will probably determine whether the whole of the 20th Century will be known as the century of fear and defeat, or as the century in which vital problems were met and successfully overcome.

At the moment we are beset by a snarl of prices, wages and taxation problems, each with an interlacing effect upon the other. There is that segment of opinion, of course, which sees the answer in greater government controls; in the prolongation of taxes; in the expansion of Social Security; in the raising of beneficial payments to the unemployed, and in the fiscal policy for deficit spending of government-made work. The answer does not lie in any of these measures. The answer lies in some hard-headed ways of improving turn-over and buying power. But there is not enough bold statesmanship as to the price-making policy. We in retailing must provide it or inspire it.

The most constructive thing we can do is bend our efforts towards the strengthening of our economy; make our nation exemplary for those who have not yet worked out of their own chaos, and prove to them that democracy can work. And a free market is the hub around which democracy revolves!

We must achieve more responsible government, we must drive out monopoly in all its forms, we must get rid of the plague of price fixing.

Since the retailer is in effect the buying agent of the consumer, since he most nearly knows what the consumer wants and the price level at which the consumer will take the goods, he must assume a more aggressive role in the making of prices, and insist upon authority equal to his responsibility. All these things must be done if we here in America are to survive as a free society with a free enterprise system.

William B. Matheson With R. D. Matheson, Inc.

GRAND RAPIDS, MICH.—William B. Matheson is now with R. D. Matheson, Inc. In the past he was with the investment firm of Bradbury-Ames Co. and was an officer of Roger Versepul & Co., Inc.

The National Economic Outlook

(Continued from page 3)

tion is increasing and the work week is shortening, so our industrial plant must be increased to supply consumer goods to our increasing population and made more efficient to turn out more goods in less time.

The amount of capital goods produced depends upon having funds available for the production of such capital goods. Actually, most of our production of capital goods are financed by corporate profits, but there have been very few years in which corporations have earned enough to perform all of the functions for which corporate profits are necessary.

Corporate profits have a specific place in our economy. They must first provide working capital for corporations to enable them to carry on their day-to-day operations, they must supply dividends to stockholders who have put up the capital to operate the corporation and, most important, they must maintain the nation's productive plant, which in turn determines its standard of living.

Currently, corporate profits are inadequate to perform all these functions. In 1947, after deducting inventory profits, corporations earned a little over \$12 billion on total volume of about \$170 billion. 7%. This is perhaps \$2 billion in excess of historical corporate earnings, which in 1936-37 averaged 6.0% on sales volume. However, what is more important, is that corporations did not earn enough to yield stockholders even a low return and have enough left to replace plant at present-day costs.

Total dividends paid to stockholders mounted to \$6 billion. This compares to dividends in 1936 and 1937 of about \$4 billion. On the total estimated book value of American corporations of approximately \$120 billion, dividends amounted to about 5%. Unless an adequate return is assured stockholders, additional public investment in American industry cannot be hoped for, and we will be faced with a long-term decline in our standard of living.

After paying dividends, corporations had \$6 billion left; in addition to this, total depreciation charges of about \$9 billion were available, or a total of \$15 billion.

Now let us look at our industrial plant and what it costs to maintain it. The present depreciated cost of our industrial plant in corporations is estimated at about \$92 billion and its original cost, \$120 billion.

To reproduce this plant in full today would cost at least \$200 billion. Assuming an average life of 15 years for plant, machinery and equipment, this would mean that approximately 1/15 of the entire American plant must be replaced each year. To do this at present prices would cost about \$13 billion annually.

This would maintain production at present levels only. As population increases, or working hours are reduced, more plant will be necessary. The average growth in the number of families has been estimated at 1.5% annually. To supply these families with goods would require an additional \$3 billion per year, or a total plant requirement at 1947 prices of \$16 billion.

The deficiency is further aggravated by the lack of necessary plant construction during the war. Probably \$20 billion at present prices must be invested in plant, equipment and transportation facilities to bring our productive capacity to the point where it can maintain our present standard of living at reasonable costs.

In 1947, corporations spent about \$18 billion on new facilities. We would have to spend this every year for ten years to wipe out a \$20 billion deficit in plant and equipment.

It is very unlikely that produc-

tion at this rate can be maintained.

Corporations in 1947 had \$15 billion from profits and depreciation. About \$3 billion less than they needed to perform the functions for which profits are necessary.

With stockholders getting only a 5% return on their money in a peak profit year and paying high taxes, there is little likelihood of getting them to invest \$3 billion a year in corporate enterprises.

The demand for preferred stocks declined sharply when fire and casualty insurance companies withdrew from the market. The bond market has also declined as institutional investors are being offered more securities than they can buy. Commercial loans are at an all time high and bankers' caution and government pressure will not permit much expansion in commercial loans.

This shortage of new capital unless relieved by increased corporate earnings or investment by the public might reduce the production of capital goods in 1948 by \$3 billion. By itself, compared to gross national product of \$225 billion, this looks unimportant, but capital goods expenditures multiply themselves very rapidly in the national economy. It might well make itself felt in reduced consumer goods production and possibly some unemployment. However, this reduction in capital goods expenditure would not result in a total decline of more than \$15 billion in gross national product, or about 7%.

Before we consider that effect this and other factors may have on prices, we ought to examine our price structure to see if it is unbalanced. In order to measure prices, let us develop a standard of measurement. In 1939, a reasonably normal year, at least there were no complaints about prices then, the average family income in the United States was \$2,000 after taxes. If that sounds high, remember there were 1½ workers in each family then. In 1947, the average family was earning \$4,500 after taxes and 1½ workers were employed. The family had 2½ times as much to spend in 1947 as in 1939. Let us use family income as our standard. It is much more realistic than average hourly rates or weekly take-home pay per individual, since a family, not an individual, is a spending group.

What has happened to prices since then? Rent is up only 11%. It used to be 20% of a rent-paying family income; it is now about 10%. Food prices are high—they are up about 100%. It is interesting to note that no buyers' resistance to these prices has developed—food consumption is considerably above 1939 and limited by production.

Manufactured goods prices are up 86%. Here some buyers' resistance may be developing. Inventories are increasing but mainly in lines which were suffering acute shortages a year ago.

American industry has performed a noteworthy achievement in keeping prices down and maintaining a reasonable profit rate. Hourly wage costs have increased at least 100%, labor efficiency has declined, and raw material prices have advanced 150% since 1939. As a partial offset, industry has had the benefit of full production and the use of a low cost industrial plant.

The BLS consumer price index stands at 164% of the 1935-1939 average. Of course this has been held down by rent control but even if this item were allowed to rise 50% the index would be increased by only 10 points to 174%. This total increase of 74% in average family expenditure is more than matched by the increase of 125% in family income. There is no evidence that our

general price level is too high at present.

In considering the future course of prices many factors must be considered and evaluated.

There is no prospect that food prices will decline. There is not enough to satisfy the demands of the American people and supplement shortages abroad. Any increase in wages will increase food prices. There will merely be made available more money with which to bid for a limited supply. No decline in food prices is possible until wages decline or world supply catches up with at least minimum demands. Certainly no change in price can be expected until the size of the 1948 crop can be authoritatively estimated.

This should be possible by June or July. Prospects of a large world crop could cut farm prices very sharply in a free market. However, there is no free market, government support levels are about 30% below present prices.

Substantial world-wide shortages exist in oil, leather, coal, steel, paper and many other raw materials. Until supply meets demand, prices for these items will at least be maintained at present levels.

Prices for manufactured goods as well as for raw materials are likely to rise, or at least not decline, as the third round of wage increases becomes effective. And until the labor shortage is remedied by greater supply, lesser demand, or improved plant facilities, wages will continue to rise.

The threatened shortage of capital, if it develops, will have no effect on prices unless it is so severe that it forces the sale of inventories at sacrifice prices. Even then the reduction in prices will be only temporary until inventories have been adjusted to available capital.

There is no great likelihood that the shortage of capital will make itself felt quickly enough to have any effect on manufactured goods prices in 1948.

This does not mean that prices at the retail level will hold firm throughout the year. Should a decline in demand take place, retailers will bear the first brunt of it in the form of lower markup and increased markdowns, and the wholesale markets will not adjust to retail selling prices until a considerable period has elapsed.

In previous years, wholesale prices were readily adjustable to changes in retail demand. Since 1936, however, more and more of our production costs have become fixed rather than flexible. The growth of labor unions and their present strength makes it unreasonable to assume that a decline in demand and in retail prices can be accompanied by a decline in manufacturing costs. On the contrary, industry in the face of declining demand, will be met by government and labor union pressure, as in 1945, to increase wages in order to sustain purchasing power.

Actually, we all talk about reducing prices but nobody wants to do his share. Organized labor wants to stop inflation by raising wages, the Government wants to stop it by increasing its budget and reducing production, municipalities and states want to stop it by paying subsidies to the veteran, the unemployed, and to stimulate housing.

There is very little chance that in an election year the Federal Government will do anything to alleviate the upward pressure on prices. None of the required actions can be politically acceptable.

Let us look at some deflationary measures that government bodies can take and try to select those we think would be popular with voters in a presidential campaign year.

Reduce government employment from its present level of over

5,000,000 to increase our productive labor supply.

Enforce public investment in non-negotiable government bonds. Reduce corporate taxes and personal taxes but only in the upper brackets.

Reduce government expenses and payments to farmers, uninjured veterans and the unemployed.

Reduce governmental construction. Use surplus to reduce government debt and not for further tax decreases.

Reduce tariffs on imports and reduce exports of products in short supply here.

Back up industry in its disputes with labor over wages.

It is unlikely that many of these will be considered seriously by a President and Congress seeking re-election.

The only deflationary measures which may be adopted are controls on consumer credit and commercial bank loans. The former would help retailers, few of whom can finance a substantial increase in installment paper from their own resources. Controls on commercial credit can cause deflation or even depression if sufficiently severe.

However, even if some deflationary government action is taken it will be more than offset by inflationary measures.

A number of these are now being discussed and some are almost sure to pass:

The European Recovery Program;

General tax reduction;

An increase in minimum wages.

Those are almost certain,

And possibly more public housing and an increase in old-age and unemployment benefits.

None of this increased purchasing power would be matched by increased production.

We can sum up the entire price situation with the observations that first, prices are not high relative to family income; second, if they move from present levels, they are more likely to go up than down; third, any break in prices this year is likely to develop either as the result of large farm crops all over the world or from a shortage of capital sufficiently severe to force liquidation of inventories; fourth, if there is any break in price it cannot go very far, nor last very long. A 10% decline in price would wipe out manufacturing profits and further declines would be strongly resisted. Furthermore, any decline in price is likely to sharply stimulate demand and there are available enormous funds to back up demand with purchasing power.

In the retail business, you are particularly concerned with the course of prices of textiles and textile products. Your program indicates it will be discussed fully later in the morning by people who can qualify as experts in that particular field. I would like to remark only that the textile industry, particularly cotton, has possibly the weakest price structure in a generally strong price picture and the one most likely to be affected by changes in foreign demand.

Perhaps the best way of summing up my observations would be to relate them to department store sales volume to be expected in 1948. It is a very good odds-on bet that business activity at its present high level will continue during the first half of this year. Our present price structure constitutes no threat to the continuation of high production and full employment. Government and labor unions will do almost nothing to change this picture, except possibly accentuate shortages and increase purchasing power without increasing production.

For the first six months, department store sales volume should approximate the levels of the third quarter of 1947, 286 on the Federal Reserve index. On this basis, department store sales should be about 3% in excess of

sales volume for the Spring of 1947. Most of the increase is likely to come in the first quarter, the second quarter will be about even with last year.

In the last half of the year, if the threatened shortage of capital funds materializes, it would reduce total national production by some 7%.

Should this develop, and I do not believe it will, department store sales should decline about 5%. Historically, retail volume declines less rapidly than national income, mainly because consumers do not readily adjust themselves to a lower standard of living simultaneously with a decline in income.

Should prices of the products you sell decline, do not expect more dollar sales volume, nor can you expect a decline in wholesale

prices until long after a retail price decline takes place.

These estimates do not fully recognize the effects of the third round of wage increases now underway, nor do they adjust for the possible elimination of rent controls this spring. A 50% increase in rents, however, would reduce the net income available for consumer goods purchases of all your potential customers by only about 5%. Its net effect on department store sales volume may not exceed 2 or 3%, which might be offset by the effects of increased wages.

I think I can close on an optimistic note; taking everything into consideration, you have good reason to expect total sales for 1948 to at least approximate those of 1947, the general price structure to remain relatively firm and your earnings to approximate those of 1947.

President's "Economic Report" Renews Plea for Inflation Curbs

(Continued from first page)

and adopt the measures that are appropriate to its solution."

The solution the President proposed is his 10-point anti-inflation program given to Congress at the opening of the special session last fall which would give him standby power for wage and price controls and the right to ration scarce items.

Tax Revision

In the matter of tax revision the President again recommended his \$40 per person income tax reduction and a correspondingly heavier tax on business corporations.

"An increase in corporate taxes would not cause production to fall below the highest output that available materials, capacity and labor will permit," Mr. Truman said. "It would, however, have an anti-inflationary effect which would wholly or in large degree offset the inflationary influence of the reduction in individual income taxes."

The President stressed that however good times have been in recent months, "a wave of inflation . . . has already caused serious hardship and presents grave concern for the future."

Basic Objectives

Three basic economic objectives for 1948 were proposed by the President. They are:

1. "The first . . . must be to halt the inflationary trend." It was here he repeated the basic goals of his anti-inflation program which was largely turned down by the recent emergency session of Congress.

2. "Our second main objective for 1948 should be to maintain maximum employment, achieve maximum production, and adjust the price-income structure so as to stop inflationary spiral without production cutbacks or extensive unemployment."

3. "To establish firmer foundations for the long-range growth and prosperity of our economy in the years ahead."

From a Short Range Standpoint

The President's economic report listed as national goals for the present year:

1. A 3% increase in production compared with the 7% achieved in 1947.

2. Jobs for 59,000,000 as a year-long average or 1,000,000 above the average 1947 figure. Last year's June peak topped the so-called "full employment" goal of 60,000,000 jobs.

3. Inauguration of a broader social, public welfare, resources conservation and industrial development program to protect the nation from periodic depressions and

As to planning for future years, the President stated: "We should within ten years be able to increase our annual national output by 35%." He maintained that business plants and equipment need expansion, listing particularly the steel, oil, coke and electrical industries.

Mr. Truman also proposed improved soil management on the nation's crop and pasture land, more dams for flood control and power, a doubling of the sustained timber yield, and development and stockpiling of strategic materials.

He urged also a long-range housing program and asked the rebuilding of slum areas should be promptly acted on by Congress, as

a start toward decent standard of American housing within ten years.

The farm policy, the President said, should aim at a 10% increase in agricultural output in the decade ahead through soil conservation, more machinery and Federal price supports.

Robt. J. Donnelly Now Cashier of Bank

GREENWICH, CONN.—Robert J. Donnelly has been appointed Cashier of the First National Bank of Greenwich, Conn., as of Jan. 13. Mr. Donnelly was formerly Assistant Cashier. Prior to his connection with this bank he was with the Chase National Bank in New York City for 10 years. He served as Colonel in the Army of the U. S. for five years, joining the Greenwich bank on leaving service.

B. L. Taylor, III, & Co. to Be Formed in New York

B. L. Taylor, III, & Co. will be formed as of Jan. 23 with offices at 120 Broadway, New York City. Partners of the firm, which will hold membership in the New York Stock Exchange will be B. L. Taylor, III, general and limited partner, Lester S. Greenwald, and Seymour N. Sears, Jr., the Exchange member, general partners. Mr. Sears was formerly a partner in Miller & Dodge.

Now With Slayton & Co.

(Special to THE FINANCIAL CHRONICLE)

QUINCY, ILL.—Edward C. Hess is now with Slayton & Co., Illinois National Bank Building.

Letter to the Editor:

Calls Present Boom

"Cream-Puff Prosperity"

Reader comments on wasteful government expenditures and rampant inflation.

Editor, Commercial and Financial Chronicle:

The major interest and concern of the American people during 1947 has been the high cost of living. Economists forecast the inflationary trend will continue throughout 1948; so our people enter the new year with the prospects of having their dollars further cheapened.

Institute are equally as interesting to the ladies as they are to the men, wives are invited also.

The Cleveland Stock Exchange program will begin at 7:45 p.m. with a short discussion by officers of the General Electric Co. on outlook and plans for the near-term future. This will be followed by a tour of modern lighting exhibits. The evening's entertainment will be concluded with light refreshments.

Payments on Chile Bonds

Holders of Dollar Bonds of the Republic of Chile, Mortgage Bank of Chile, Water Company of Valparaiso, City of Santiago and Chilean Consolidated Municipal Loan are being notified that on and after Feb. 1, 1948, holders of assented bonds of these loans will be entitled to a payment at the rate of \$10.296 per \$1,000 bond. Payment will be made at the Trust Department of Schroder Trust Co., in New York, as correspondent of the Autonomous Institute for the Amortization of the Public Debt.

Henry J. Jensen With Dempsey & Co., Chi.

CHICAGO, ILL.—Dempsey & Co., 135 South La Salle Street, members of the Chicago Stock Exchange, announce that Henry J. Jensen has become associated with their organization. For many years he was associated with Blair & Co., Inc., in St. Louis.

Hirsch Co. Adds to Staff

Hirsch & Co., 25 Broad Street, New York City, members of the New York Stock Exchange, announce that J. Harold Smith has become associated with the firm as a registered representative in the main office.

H. J. Schrader & Co.

SOUTH BEND, IND.—H. J. Schrader & Co. is engaging in a securities business from offices at 315 West Jefferson Boulevard.

SURE - SAFE PROFITABLE



U.S. SAVINGS BONDS

Cleve. S. E. Resumes Special Programs

CLEVELAND, O.—The Cleveland Stock Exchange announces the 1948 resumption of its series of informative meetings featuring listed corporations. Each of the 1947 meetings was successful and well attended.

The membership and close friends of the Exchange have been invited by the General Electric Co. to attend a specially planned session of The Nela Park Lighting Institute on Monday evening Jan. 26. Since the affairs of the

Who Gets the Money Under Marshall Plan?

(Continued from page 8)

billion, to be exact—goes to the City, \$2,436,000,000. If that's a calculated risk against communism in Holland, it's quite a calculation. Yet, the plan is presented as "take the whole plan or nothing"—all or nothing. Why, the figure for Holland alone means a charge on us of \$308 for every man, woman and child who lives on the shores of the Zuider Zee.

Denmark Over \$500,000,000

Denmark is supposed to get over a half-billion dollars—\$582,000,000, to be exact. That's for this one little country, with a population comparable to Chicago. It's as much as all the stopgap aid for which the special session of Congress was so dramatically called last November. Denmark—a half-billion dollars.

Ireland: \$497,000,000

Now, Ireland. Ireland was not in the war. Ireland is an island. The communists would have to swim to get there. If there's a communist there now, not an Irishman knows it. But Ireland is to get a half-billion dollars, \$497,000,000 to Ireland, to be exact.

So, my friends, three and a half billion dollars, out of the 17 billion, go to Holland, Denmark and Ireland. For good measure, even Iceland is included.

Iceland: \$38,000,000

Apparently, there must be quite a communist threat in Iceland. There must be a lot of western civilization tottering on the brink there besides. For Iceland comes into the Marshall Plan, and for \$38,000,000.

Fewer people live on that island than live in Trenton, New Jersey. And Iceland is just about as much in the throes of chaos—just about as much tottering on the brink of giving up western civilization—as Trenton, New Jersey. Only there isn't much western civilization in Iceland, anyway. But,

they're to get \$38,000,000 from us—all or nothing—just the same.

Norway: \$234,000,000

Then, there's Norway, where the communist vote is about 7%. Norway is in for \$234,000,000 from us. The plan gives \$234,000,000 to Norway.

Portugal: \$150,000,000

Consider Portugal next, in deciding whether or not the propaganda for the plan is padded in its over-all anti-communist appeal to our public. In Portugal the communist vote happens to be nonexistent. For 20 years, the country has been, and remains in, the hands of a Fascist dictator, Dr. Salazar.

Portugal did not fight in the war. Portugal profited immensely in the war, by Portuguese standards. Yet Portugal gets our money just the same. Portugal gets a 150 million American dollars in the Marshall Plan. All or nothing.

Can the \$17,000,000,000 be cut? Can the first installment now asked for—\$6,800,000,000—be cut? I should say so. And now.

Are We Discouraging Communism?

The anti-communist angle is valid to a degree in some places where the money is to go, such as Italy. But now that we get the figures, so belatedly published, it is clear that over 10 billion of the 17 billion is going to countries—and I've visited every one of them myself—that are by common consent no more on the verge of voting communist than the State of Indiana, which I visited last week and which hardly looks on the verge of voting communist to me.

Are We Aiding War Victims?

Take another angle. The appeal is made to us that we are aiding the victims of war-torn countries in gratitude for their losses in the war. Now, there are other appeals that are sound. This isn't one of them. How many billions are ruled out on that score?

Enemy and Neutrals Included

Of the 16 countries sharing in the Marshall Plan, over \$6,000,000,000 out of the \$17,000,000,000

are to go to enemy countries—Germany, Italy, and Austria. There are other reasons for helping them, but not gratitude.

\$700,000,000 goes to countries that stayed neutral. These countries did not even fight in the war. In fact, they got richer during the war than they've ever been—largely at American expense. They might well be giving something back to us—as if anything like that could ever happen.

Sweden & Switzerland, However, Have Asked Us for Nothing.

Praise Be

All summer long, I have been traveling in one European country after another—in England, France, Italy, Greece, Switzerland, Belgium, Luxembourg, Holland, Germany. I broadcast from Paris where the 16 nations were meeting to put in their request, now being considered, for additional American funds and substance. I have tried to say on the air, as factually as I could—right there on the scene, in London, Rome, Athens, Zurich, Berlin, Brussels, Paris, and in a dozen other places since I've been home—that the objectives of the Marshall Plan are good. Heavens knows there's no question about that. But the gigantic amounts asked for were over-stated, inflated, padded, padded, and padded. Furthermore, the plan is shockingly weak in providing how the money should be administered to get the results on which we pin our American hopes.

Marshall Plan Needs Rewriting

In short, I think we should endorse the objectives of the Marshall Plan. But the Plan is no longer just an idea. It is now a tangible piece of proposed legislation. It is ready to be enacted into law and to absorb billions in our American people's money and goods.

It shouldn't be approved as written. I'm convinced it will not be.

We must get the air pumped out of the claims and make the necessary changes to fit the real problem over there—which is a production problem, and requires

realistic, production-minded American handlers to whip it. When we get this done, we can stop failing in the pattern of the \$22 billion that has already gone with the wind since the end of the war. We can really get some place, really serve ourselves and Europe, and the cause of lasting peace, by making these vital changes in the plan. We can also save ourselves billions and billions besides, that would have been wasted had we allowed our judgments to be blitzed.

First Colony Corp. Offers Securities Stock

First Colony Corp. made a public offering Jan. 14 of 36,000 shares of 5% cumulative convertible preferred stock and 100,000 shares of common stock of the First Guardian Securities Corp. The public offering price is \$25 per share for the preferred and \$10 per share for the common.

Proceeds from the sale of the shares will be used by the company to buy and sell securities for the purpose of trading and for the purpose of investment.

Upon completion of the present financing, the sole capitalization of the company will consist of 36,000 shares of preferred stock and 125,000 shares of common stock. There is no funded debt nor any bank loan outstanding.

The corporation was organized in November, 1947, as a closed-end diversified, management type investment company. The management plans to conduct the operation of the company in such a manner as to enable it to qualify as a regulated investment company. This type of company is required to distribute at least 90% of its ordinary income to stockholders and, to the extent it is distributed, the company is relieved of corporate normal tax and surtax. In addition, corporate capital gains are not taxed to the corporation if they are distributed. Such capital gains distributed are subject to only 25% tax to the stockholders.

Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

Acme Broach Corp., Ann Arbor, Mich.

Dec. 2, (letter of notification) 40,000 shares (\$5 par) common. Price—\$5 a share. Underwriter—Dean W. Titus and Co., Ann Arbor. To build factory, pay obligations and for working capital.

All American Industries, Inc., New York

Oct. 30 filed 100,000 shares (\$1 par) common (name to be changed to American Steel & Pump Corp.) Underwriter—Herrick, Waddell & Co., New York. Price by amendment. Proceeds—to pay off indebtedness incurred in the acquisition of the capital stock of A. D. Cook, Inc., Lawrenceburg, Ind.

American Bankers Insurance Co. of Florida, Miami.

Nov. 3 (letter of notification) 2,500 shares of class A (\$10 par) common, 5,000 shares (\$10 par) class B common, and 11,250 shares 8% (\$10 par) cumulative preferred. Price—\$240 per unit, consisting of 2 shares of class A, 4 shares of class B and 9 shares of preferred. No underwriting. For capitalization of company to enter into stock fire insurance business.

Apple Valley Building & Development Co., Long Beach, Calif.

Dec. 29 (letter of notification) 30,000 shares (\$10 par), class A common. Price—\$10 a share. Underwriter—Tripp Realty Co., Long Beach. To erect guest ranch cottages and allied expenditures.

Arizona Welding Equipment Co., Phoenix, Ariz.

Dec. 23 (letter of notification) \$100,000 of 6% convertible sinking fund debentures and 2,000 shares of \$1 par common. The debentures will be sold at \$1,000 each and the common at \$8.75 each. Underwriters—Pacific Coast Securities Co., San Francisco. To retire indebtedness and for working capital.

Armstrong Cork Co., Lancaster, Pa. (1/22)

Dec. 19 filed 88,179 shares (no par) \$4 cumulative preferred. Underwriters—Smith, Barney & Co.; Kidder, Peabody & Co., and The First Boston Corp., New York. Offering—Offered to common stockholders of record Jan. 7 in ratio of one share for each 16 shares held. Rights expire 3 p.m. (EST) Jan. 21. Unsubscribed shares will be offered publicly. Price—102 1/2. Proceeds—to finance expansion program.

Associated Baby Services, Inc., N. Y.

Jan. 9 (letter of notification) 25,000 shares common (no par). Price—\$6 per share. Underwriters—None. Offered to stockholders of record Jan. 9 in ratio of one new share for each seven shares held. Rights expire March 9. Corporate purposes.

Beam (James B.) Distilling Co., Chicago

Dec. 29 (letter of notification) 150,000 shares (\$2 par) common. Price—\$2 a share. No underwriting. For working capital. Offered to common stockholders of Philip Blum & Co. Inc. of record Dec. 22. Rights expire Feb. 20.

Bendix Aviation Corp., Detroit

Jan. 2 filed 399,990 shares (\$5 par) common. Underwriter—Morgan Stanley & Co. Price by amendment. Stock owned by General Motors Corp. Business—Manufacturing aviation, radio, marine and automotive parts.

Boyd System, Inc., Bristol, Pa.

Jan. 12 (letter of notification) 6,000 shares of class A common, series One. Price—\$5. Underwriting—None, Corporate purposes.

California Union Insurance Co., San Francisco

Nov. 28 filed 99,700 shares of common stock (par \$10). Underwriter—None. Price—\$25 a share. Proceeds—for working capital.

Cameron Aero Engine Corp. (1/21-23)

Dec. 29 (letter of notification) 101,000 shares of common stock (par \$1), of which 85,000 shares will be sold to the public; 8,500 shares will be issued to underwriters as additional underwriting consideration and 7,500 shares will be issued to American Die & Tool Co. for investment in return for cancelling \$15,000 open account for machine tools. Price—\$2 per share. Underwriter—R. A. Keppler & Co., Inc., New York. To provide operating funds, etc.

Central Chemical Corp., Hagerstown, Md.

Dec. 29 filed 254,682 shares (\$10 par) non cumulative 6% stock and 70,643 shares (\$10 par) non-voting common

Corporate and Public Financing



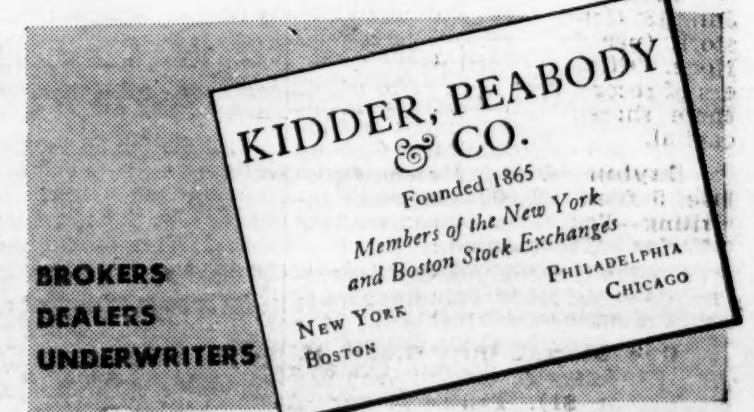
FIRST BOSTON CORPORATION

Boston

New York

Pittsburgh

Chicago and other cities



NEW ISSUE CALENDAR

January 15, 1948

Old Poindexter Distillery, Inc.—Pref. and Common

January 19, 1948

Islip Stadium Corp.—Common
St. Louis-San Francisco Ry.—Equip. Trust Cts.

January 20, 1948

De Walt, Inc.—Common
Potomac Edison Co., noon (EST)—Bonds
Potomac Electric Power Co.
11:30 a.m. (EST)—Bonds
Southern California Edison Co.
8:30 a.m. (PST)—Bonds

January 21, 1948

Cameron Aero Engine Corp.—Common
General Instrument Corp.—Common

January 22, 1948

Armstrong Cork Co.—Preferred
Northeastern Water Co.—Bonds

January 26, 1948

Baltimore & Ohio RR.—Equip. Trust Cts.
Kaiser-Frazer Corp.—Common
Southwestern Public Service Co.—Pref. & Common
Tampa Electric Co.—Bonds & Preferred

February 2, 1948

Iowa Power & Light Co.—Bonds

March 16, 1948

Pacific Telephone & Telegraph Co.—Bonds

Class B stock. **Underwriters**—To be sold through company officers and employees. **Offering**—To company stockholders, employees and customers. **Price**—At par. **Proceeds**—To retire indebtedness and for working capital.

Central Maine Power Co.

Nov. 10 filed 160,000 shares (\$10 par) common. **Underwriting**—To be determined by competitive bidding. On Dec. 3 only one bid, that of Blyth & Co., Inc. and Kidder, Peabody & Co. was submitted and was rejected by the company. They bid \$13.75, less \$1.75 underwriting commission. **Offering**—To be offered to 6% preferred and common stockholders for subscription on the basis of one-half share of new common for each preferred share and one-tenth share of new common for each common share held. Price by amendment. **Proceeds**—For construction and repayment of bank loans.

Central Power & Light Co.

Nov. 21 filed 40,000 shares (\$100 par) cumulative preferred. Underwriting to be determined by competitive bidding. No bids received at competitive bidding Dec. 15. Sale may be negotiated. **Proceeds**—For property additions and expenses.

Century Steel Corp., Hollydale, Calif.

Nov. 10 filed 4,000 shares (\$100 par) common. No underwriting. **Price**—\$100 a share. **Proceeds**—To purchase rolling mill, equipment and for working capital.

Cincinnati Gas & Electric Co.

Dec. 1 filed 204,000 shares (\$8.50 par) common. No underwriting. **Offering**—Common stockholders of record Jan. 15 are given the right to subscribe on the basis of one new share for each 10 shares held at \$22 per share. Rights expire Feb. 2. **Proceeds**—To finance construction.

Clinton (Ia.) Industries, Inc.

Dec. 15 filed 210,000 shares (\$1 par) capital stock. **Underwriting**—None. **Offering**—Shares are to be offered in exchange for 300,000 shares of Obear-Nester Glass Co., St. Louis.

Consumers Cooperative Assoc., Kansas City, Missouri

Oct. 16 filed \$1,000,000 4% non-cumulative common stock (\$25 par); \$4,000,000 of 3 1/2% certificates of indebtedness cumulative; and \$1,000,000 of 1 1/2% loan certificates cumulative. No underwriting. **Offering**—To the public. Common may be bought only by patrons and members. **Price**—At face amount. **Proceeds**—For acquisition of additional office and plant facilities.

Coosa River Newsprint Co.

Dec. 23 filed 238,829 shares of common (par \$50). Underwriting none. **Offering**—Stock will be offered direct to public through directors and officers. Price, par. **Proceeds**—Erect and operate mill for manufacture of newsprint from Southern pine. Company also contemplates the sale of \$16,000,000 4% 1st mortgage bonds.

Cowles Co., Inc., Cayuga, N. Y.

Jan. 13 (letter of notification) 5,000 shares of capital stock (par \$5). **Price**—\$30 per share. **Underwriters**—None. **Offering**—4,000 shares to be offered to stockholders of record Jan. 13 in ratio of two new shares for each three shares held. Rights expire Feb. 20. Working capital.

Dayton (Ohio) Power & Light Co.

Dec. 5 filed 170,000 shares (\$7 par) common. **Underwriting**—The common shares will not be underwritten. **Offering**—The common shares will be offered for subscription by stockholders on the basis of one share for each nine shares held. **Price**—To be supplied by amendment. **Proceeds**—To finance construction program.

Dee Stores, Inc., Olean, N. Y.

Dec. 15 (letter of notification) 90,000 shares of common stock (par \$1). **Price**—\$3 per share. **Underwriters**—Willis E. Burnside & Co., Inc., and Otto Fuerst & Co., New York. **Purpose**—Working capital.

De Walt, Inc., Lancaster, Pa. (1/20)

Dec. 5 filed 110,000 shares (\$2.50 par) common. **Underwriter**—Reynolds & Co., New York. **Price**—By amendment. **Proceeds**—Company is selling 20,000 shares and the remaining 90,000 shares will be offered by stockholders. The company will use its proceeds for plant construction and for working capital.

Dogpaw Gold Mines Ltd., Toronto

Oct. 22 filed 1,000,000 shares (\$1 par) capital stock. **Underwriter**—Tellier & Co. **Price**—40¢ per share. **Proceeds**—To develop mining properties in Flint Lake locality of Ontario.

Doman-Frasier Helicopters, Inc., New York

Jan. 6 (letter of notification) 10,000 shares of capital stock (par \$1). **Price**—\$1.50 per share. **Underwriting**—None. Operating expenses during completion and demonstration of test flight progress of corporation's rotor-blade system for helicopters.

Domestic Credit Corp., Chicago

Dec. 29 filed 150,000 shares (\$1 par) Class A Common. **Underwriters**—None. **Offering**—To be offered to employees, executives and management personnel. **Price**—\$3.49 a share. **Proceeds**—Company did not state how proceeds will be used.

Electric Steam Sterilizing Co., Inc., N. Y.

Sept. 22 (letter of notification) 65,000 shares of common stock (par 10¢). **Price**—65 cents per share. **Underwriter**—Reich & Co., New York. Purchase of inventory, etc. Postponed indefinitely.

Equitable Office Building Corp., New York

Jan. 8 (letter of notification) 9,126 shares of common (par \$1). **Price**—Market (about \$4 1/8). Shares are part of 60,000 shares purchased by group of underwriters pursuant to offering of 1,034,518 shares to stockholders at \$3 per share in accordance with trustee's reorganization plan. **Underwriters**—Bear, Stearns & Co.; Hallgarten & Co.; Baker, Evans & Co., Inc.; Kirkely Corp., and Overseas Securities Co., Inc. **Proceeds**, with other funds were used to refund 5% debentures.

Equity Fund, Inc., Seattle, Wash.

Dec. 29 filed 103,089 shares of common. **Underwriters**—Pacific Northwest Co., Seattle. Price based on market prices. **Proceeds**—For investment.

Exchange Buffet Corp., New York

Jan. 7 (letter of notification) 500 shares of common (par \$2.50). **Underwriter**—Delafield & Delafield, New York. **Price**—Market (about \$6.87 1/2). Proceeds to selling stockholder.

Fleetwood Airflow, Inc., Wilkes Barre, Pa.

Jan. 9 (letter of notification) 15,000 shares of capital stock. **Price**—\$3,875 per share. **Underwriter**—E. F. Gillespie & Co., New York. Proceeds to selling stockholders.

Fraser Products Co., Detroit, Mich.

Oct. 21 filed 100,000 shares (\$1 par) common. **Underwriters**—Campbell, McCarty & Co., and Keane & Co., both Detroit. **Price**—\$5.25 per share. **Proceeds**—The shares are being sold by 14 stockholders who will receive proceeds.

Gabriel Co., Cleveland

Oct. 24 (letter of notification) 10,000 shares (\$1 par) common, on behalf of Wm. H. Miller, a director of the company, to be sold at market. **Underwriter**—Sills, Minton & Co., Chicago. Indefinitely postponed.

General Citrus Products Corp., New York

Jan. 8 (letter of notification) 37,500 3-year 10% promissory notes due Dec. 1, 1950; warrants to purchase 11,000 shares of common stock (no par) at \$5 per share before Dec. 31, 1950 and 11,000 shares common (no par). **Price**—Notes with warrants attached in proportion of 200 shares per \$1,000 note, \$1,000 per unit. **Underwriter**—Harrison & Co., Philadelphia. Financing of inventory.

General Instrument Corp. (1/21)

Nov. 14 filed 150,000 shares of common (par \$1). **Underwriter**—Burr & Co., Inc., New York. **Proceeds**—Stock being sold by four stockholders who will receive proceeds. Price by amendment.

Giant Portland Cement Co., Philadelphia, Pa.

Jan. 12 filed 564,906 shares (\$1 par) common and 282,453 common stock purchase warrants. **Underwriters**—Craigmyle, Pinney & Co., New York; Winslow, Douglas & McEvay, New York, and Jenks, Kirkland & Co., Philadelphia. **Offering**—To stockholders on basis of two shares of stock and one warrant for each share of common stock held. Price by amendment. **Proceeds**—To develop a plant and facilities for the company's subsidiary, Carolina Giant Cement Co., Harleyville, S. C.

Glass Fibers, Inc., Waterville, O.

Dec. 30 filed 343,000 shares (\$1 par) common. **Underwriter**—Kebon, McCormick & Co., Chicago. Price by amendment. **Proceeds**—To repay indebtedness and for working capital.

Gulf Oil Corp.

Jan. 14 filed 2,269,050 shares of capital stock (par \$25). **Underwriter**—The First Boston Corp. **Offering**—The stock will be offered for subscription by stockholders of record Jan. 27. Rights will expire Feb. 10. **Proceeds**—Will augment corporation's working capital position and provide funds for acquisition and development of additional production and the expansion of refining, transportation and marketing facilities.

Guyana Mines, Ltd., Toronto, Canada

Nov. 26 filed 303,587 shares (\$1 par) common. **Underwriting**—None. **Price**—50 cents a share. **Proceeds**—For equipment and working capital.

Harshaw Chemical Co., Cleveland, O.

Dec. 26 filed 58,612 shares (\$10 par) common. **Underwriters**—McDonald & Co., Cleveland. **Offering**—The shares initially will be offered for subscription by stockholders. Unsubscribed shares will be offered publicly. Price by

amendment. **Proceeds**—To repay short-term bank indebtedness.

High Vacuum Processes, Inc., Phila.

Jan. 2 (letter of notification) 3,700 shares of non-cumulative preferred stock (par \$25) and 18,500 shares of common stock (par 5¢). **Underwriter**—A. W. Smith & Co., Inc., Boston. **Price**—\$25.25 per unit, consisting of one share of preferred and five shares of common. Purchase of laboratory equipment and facilities, working capital.

Hulett's Landing (N. Y.) Corp.

Jan. 9 (letter of notification) \$60,000 3% debentures (non-convertible) due July 1, 1957 and \$3,000 shares capital stock (par 10¢). **Price**—\$502.50 per unit of \$500 of debentures and 25 shares of stock. To be sold through officers and stockholders. To reduce amount paid on purchase price of property and to supplement working capital.

Illinois-Rockford Corp., Chicago

July 24 filed 120,000 shares (\$1 par) common. **Underwriters**—Brailsford & Co., and Straus & Blosser, Chicago. **Price**—\$9.25 a share. **Proceeds**—The shares are being sold by four stockholders and represent part of the stock the sellers will receive in exchange for their holdings of four furniture companies to be merged with the registrant. The merging companies are Toccoa Manufacturing Co. and Stickley Brothers, Inc., both Illinois corporations, and the Luce Corp. and Stickley Bros. Institutional Furniture Co., both Michigan corporations. Indefinitely postponed.

Inter County Telephone & Telegraph Co., Fort Myers, Fla.

Dec. 24 (letter of notification) 4,000 shares of 5% cumulative preferred stock. **Price**—\$25 a share. **Underwriter**—Florida Securities Corp., St. Petersburg, Fla. For property improvements.

Interstate Department Stores, Inc.

Oct. 30 filed \$5,000,000 15-year sinking fund debentures. **Underwriter**—Lehman Brothers, New York. Price to be filed by amendment. **Proceeds**—To repay bank loans and for general corporate purposes including the financing of new stores. Temporarily postponed.

Iowa Power & Light Co. (2/2)

Dec. 22 filed \$6,000,000 first mortgage bonds, series due 1973. **Underwriting**—To be determined by competitive bidding. Probable bidders: Blyth & Co., Inc.; The First Boston Corp.; Halsey, Stuart & Co., Inc.; Glare, Forgan & Co., and A. G. Becker & Co. (jointly); Harriman Ripley & Co.; Kidder, Peabody & Co., and White, Weld & Co. and Shields & Co. (jointly); Salomon Bros. & Hutzler; Lehman Brothers. **Price**—By amendment. **Proceeds**—Construction. **Bids**—Expected about Feb. 2.

Islip (N. Y.) Stadium Corp. (1/18)

Jan. 12 (letter of notification) 75,000 common shares (par \$1). **Price**—\$2 per share. **Underwriter**—E. P. Fraze & Co., New York. Pay liabilities incurred in building stadium, etc., and working capital.

Johnson Bronze Co., New Castle, Pa.

Nov. 10 filed 150,000 shares common stock (par 50¢). **Underwriter**—Lee Higginson Corp. **Proceeds**—Stock being sold for account J. P. Flaherty, a stockholder.

Kaiser-Frazer Corp. (1/26-30)

Jan. 6 filed 1,500,000 shares (\$1 par) common. **Underwriters**—Otis & Co., Cleveland; First California Co., San Francisco, and Allen & Co., New York. **Price**—By amendment. **Proceeds**—To purchase machinery and tools to increase production of automobiles from current rate of 950 per day to 1,500 per day.

Kansas Soya Products Co., Inc., Emporia, Kans.

Dec. 3 (letter of notification) 3,157 shares (\$95 par) preferred. **Price**—\$95 a share. **Underwriter**—Kenneth Van Sickle, Inc., Emporia. For additional working capital.

Legend Gold Mines, Ltd., Toronto, Canada

June 27 filed 300,000 shares (\$1 par) common treasury stock. **Underwriting**—To be supplied by amendment. **Price**—50 cents a share. **Proceeds**—To develop mining properties.

Liberty Discount Co., Inc., Bremen, Ind.

Dec. 30 (letter of notification) \$300,000 (\$100 par) class A common. **Price**—\$100 a share. No underwriting. For working capital.

Lock Nut Corp. of America

Oct. 6 (letter of notification) 24,000 shares of 5% cumulative convertible preferred stock (par \$12.50). **Underwriter**

(Continued from page 41)

ble preferred and 85,000 shares (\$1 par) common. **Underwriter**—Kirchofer & Arnold, Inc., Raleigh, N. C. **Price**—The debentures at 102.507, while the preferred shares will be offered at par and the common shares at \$4 each. **Proceeds**—To retire bank indebtedness and to finance purchase of machinery and other plant equipment.

Market Basket, Pasadena, Calif.

Dec. 30 filed 27,788 shares (50c par) common. **Underwriters**—None. **Offering**—Shares are to be issued upon exercise of common stock purchase warrants issued in July, 1945. **Price**—Two shares per warrant at \$6 a share. **Proceeds**—For additional working capital.

Merchants Refrigerating Co., N. Y.

Jan. 9 (letter of notification) 1,000 shares class B stock (par \$1). **Price**—\$15 per share. **Underwriter**—Cooke & Lucas, New York. **Proceeds** to selling stockholders.

Monsanto Chemical Co., St. Louis

Nov. 28 filed 250,000 shares (no par) \$4 dividend cumulative preference stock, series B. **Underwriter**—Smith, Barney & Co., New York. **Price** to be filed by amendment. **Proceeds** for general corporate purposes including financing new plant construction and additions to present facilities. Offering postponed due to market conditions.

Motor Acceptance Corp., Philadelphia

Jan. 12 (letter of notification) 75 shares of common (par \$100) and 2,925 shares of class A (par \$100). **Price**—Par. Working capital. No public offering will be made.

New York Telephone Co.

Dec. 30 filed \$60,000,000 30-year refunding mortgage bonds, Series E. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co. **Price**—To be determined by competitive bidding. **Proceeds**—To finance construction program.

Northeast Airlines, Inc., Boston, Mass.

Dec. 24 filed 83,333 shares (no par) \$1 cumulative convertible preferred. **Underwriter**—Atlas Corp., owner of 100,000 shares of the registrant's common stock, has agreed to purchase all shares not subscribed for by other stockholders. **Offering**—The shares will be offered for subscription to common stockholders on the basis of one share for each six common shares held. **Price** by amendment. **Proceeds**—To pay off indebtedness.

Northeastern Water Co. (1/22-23)

Dec. 22 filed \$10,000,000 sinking fund collateral trust bonds, due Jan. 1, 1968. **Underwriters**—W. C. Langley & Co. and The First Boston Corp. **Price**—By amendment. **Proceeds**—To pay bank loan.

Northern Indiana Public Service Co.

Oct. 29 filed 272,694 shares (\$20 par) cumulative preference stock. **Underwriters**—Central Republic Co. Inc., Chicago; The First Boston Corp., and Blyth & Co. Inc., New York. **Offering**—For subscription by common stockholders on basis of one preferred share for each eight common shares held. Unsubscribed shares will be offered publicly. **Price**—\$21 a share. **Proceeds**—To improve its public utility system.

Ocean Downs Racing Association, Inc., Berlin, Md.

Nov. 28 filed 34,900 shares (\$10 par) common. No underwriting. **Price**—\$10 a share. **Proceeds**—To build trotting and pacing race track near Ocean City, Md.

O'Donohue (Joseph J.) IV, New York

Jan. 9 (letter of notification) \$150,000 5.5% sinking fund bonds, series 1948-1973. **Price**—Par. **Underwriter**—Bioren & Co., Philadelphia. Personal and business requirements.

Ohio Public Service Co.

Dec. 22 filed \$10,000,000 first mortgage bonds, series due 1978. **Underwriting**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Harriman Ripley & Co.; Blyth & Co.; W. C. Langley & Co., and Glore, Forgan & Co. (jointly). **Price**—By amendment. **Proceeds**—To be used for construction. Expected later part of January or early in February.

Old Poinsett Distillery, Inc. (1/15-16)

Mar. 31 filed 50,000 shares (\$20 par) 5% convertible cumulative preferred and 125,000 shares (\$1 par) common into which the preferred is convertible. **Underwriters**—F. S. Yantis & Co., and H. M. Bylesby & Co., both of Chicago. **Price**—Par. **Proceeds**—To be added to working capital.

Olokele Sugar Co., Ltd., Honolulu, Hawaii

Dec. 16 (letter of notification) 12,600 shares (\$20 par) common. **Price**—\$20 a share. No underwriting. To complete irrigation and water supply system and to repay indebtedness.

Peoples Home Equipment Co., Cleveland, O.

Dec. 22 (letter of notification) \$100,000 8% five-year debenture notes. To be sold in denominations of \$500 and \$1,000. To be sold through officers of the company. For working capital and payment of indebtedness.

Pittsburgh Steel Co.

Nov. 20 filed \$6,500,000 of first mortgage bonds, due 1967. **Underwriters**—Kuhn, Loeb & Co.; A. G. Becker & Co. Inc. and Hemphill, Noyes & Co. **Price** by amendment. **Proceeds**—To refund outstanding first mortgage bonds. Temporarily deferred.

Potomac Edison Co., Hagerstown, Md. (1/20)

Dec. 16 filed \$4,000,000 30-year first mortgage and collateral trust bonds. **Underwriting**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; W. C. Langley & Co., and The First Boston Corp. (jointly); Blyth & Co., Inc.; Harriman Ripley & Co. **Price**—\$1,000,000. **Proceeds**, together with \$1,000,000

from sale of 50,000 shares of common to parent, West Penn Electric Co., will be used to repay bank loan and for new construction. **Bids**—Bids for purchase of bonds will be received up to noon (EST) on Jan. 20 at Room 901—50 Broad Street, New York City.

Potomac Electric Power Co. (1/20)

Dec. 19 filed \$15,000,000 35-year first mortgage bonds. **Underwriting**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Kuhn, Loeb & Co., and Blyth & Co. Inc. (jointly); Harriman Ripley & Co.; Kidder, Peabody & Co. and Merrill, Lynch, Pierce Fenner & Beane (jointly) White, Weld & Co., Glore, Forgan & Co. **Proceeds**—To finance construction and for other corporate purposes. **Bids**—Bids for purchase of bonds will be received up to 11:30 a.m. (EST) Jan. 20 at Room 822, 929 E Street N. W., Washington, D. C.

Precision Parts Co., Ann Arbor, Mich.

Dec. 15 (letter of notification) 15,000 shares (\$1 par) common, on behalf of six stockholders, including four officers of the company. To be sold at market to Baker, Simonds & Co., Detroit.

Public Service Co. of New Hampshire

Nov. 25 filed 139,739 shares of common (par \$10). **Underwriters**—To be determined by competitive bidding. **Offering**—Common stock first will be offered for subscription to present shareholders at the rate of one share for each five shares held. Unsubscribed shares and the bonds will be offered publicly. **Proceeds**—To pay off loans and for construction purposes.

Raleigh Red Lake Mines, Ltd., Toronto, Can.

Jan. 7 filed 460,000 shares of common stock. **Underwriter**—Mark Daniels & Co., Toronto, Canada. **Price**—25 cents a share in Canadian funds. **Proceeds**—For exploration and development of mining property.

Raritan Laboratories, Inc., Metuchen, N. J.

Jan. 8 (letter of notification) 1,740 shares of preferred stock (par \$100) and 1,740 shares of common stock (no par). **Price**—Preferred, \$100. **Underwriter**—None. Expansion and working capital.

South Carolina Electric & Gas Co.

Dec. 2 filed 80,858 shares (\$50 par) cumulative convertible preferred and 404,293 shares (\$4.50 par) common for sale, and 687,293 shares reserved for conversion of preferred. **Underwriter**—Kidder, Peabody & Co., New York. **Offering**—Shares initially will be offered for subscription by company's common stockholders, the preferred on a 1-for-10 basis and the common on a 1-for-2 basis. Unsubscribed shares will be offered publicly. **Price** by amendment. **Proceeds**—Proceeds together with other funds will be used to purchase all of the outstanding common of South Carolina Power Co. from the Commonwealth & Southern Corp.

Southeastern Telephone Co., Chicago

Dec. 19 (letter of notification) 13,999 shares of common. **Price**—\$12.75 a share. No underwriting. For property additions and improvements.

Southern California Edison Co. (1/20)

Dec. 30 filed \$40,000,000 25-year first and refunding mortgage bonds, series A. **Underwriters**—To be determined through competitive bidding. Probable bidders: The First Boston Corp.; Halsey, Stuart & Co. Inc.; Blyth & Co., Inc. **Proceeds**—To retire \$22,000,000 of bank loans and to reimburse treasury; for construction of additional power facilities. **Bids**—Bids for purchase of bonds will be received up to 8:30 a.m. (PST) on Jan. 20 at 601 West 5th Street, Los Angeles 53, Calif.

Southwestern Gas & Electric Co.

Nov. 5 filed \$7,000,000 30-year first mortgage bonds, series B. **Underwriting**—To be determined at competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc., Lehman Brothers and Lazard Freres & Co. (jointly); White, Weld & Co. and Kidder, Peabody & Co. (jointly); Blyth & Co., Inc. and Stone & Webster Securities Corp. (jointly); Glore, Forgan & Co. and W. C. Langley & Co. (jointly); Harriman, Ripley & Co.; Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—To finance construction program.

Southwestern Public Service Co. (1/26)

Dec. 24 filed 10,000 shares (\$100 par) cumulative preferred and 103,113 shares (\$1 par) common. **Underwriting**—Dillon, Read & Co. Inc. **Offering**—The preferred will be offered publicly (about Jan. 26) and the common will be offered to Southwestern's common stockholders of record Jan. 23 at the rate of one share for each 11 shares held. Rights will expire Feb. 2. **Price** by amendment. **Proceeds**—To retire bank loans and for construction purposes.

Tampa (Fla.) Electric Co. (1/26-30)

Dec. 24 filed \$6,000,000 30-year first mortgage bonds. **Underwriting**—To be filed by amendment. **Price** by amendment. **Proceeds**—To pay construction costs. Expected week of Jan. 26.

Union Trusteed Funds, Inc., New York

Dec. 29 filed 657,500 shares of capital stock. **Underwriters**—Lord, Abbott & Co. Inc., New York, is selling agent. Price based on market prices. **Proceeds**—For investment.

Washington (D. C.) Gas Light Co.

Nov. 7 filed 35,000 shares (no par) common. **Offering**—Shares were offered for subscription by common stockholders of record Dec. 26 on the basis of one share for each five held. Subscription warrants expire Jan. 13. **Price**—\$20 per share. About 71,000 shares subscribed for. **Dealer-Managers**—The First Boston Corp.; Alex. Brown & Sons; Auchincloss, Parker & Redpath; Johnston, Lemon & Co.; Folger, Nolan, Inc.; Goodwyn & Olds; Mackall & Coe; Ferris & Co.; Robinson, Rohrbaugh & Lukens, and Robert C. Jones & Co. **Proceeds**—To be added to general funds for current construction program.

Wisconsin Power & Light Co. (1/26)

Dec. 29 filed \$3,000,000 30-year first mortgage bonds, Series B, and 30,000 shares (\$100 par) 4 1/2% cumulative preferred stock. **Underwriters**—Only the bonds will be underwritten under competitive bidding terms. **Probable Bidders**—Halsey, Stuart & Co. Inc.; Glore, Forgan & Co. and Harriman Ripley & Co. (jointly); W. C. Langley & Co., White, Weld & Co., and Kidder, Peabody & Co. (jointly); Blyth & Co., Inc.; The First Boston Corp.; Shields & Co. **Offering**—Bonds will be offered publicly while stock will be offered to holders of 4 1/2% preferred. **Price** by amendment. **Proceeds**—To pay bank indebtedness and for construction costs. Expected week of Jan. 26.

Wolf & Dessauer Co., Fort Wayne, Ind.

Jan. 9 filed 75,712 shares (\$1 par) value common stock, of which 25,712 shares are being sold by company and 50,000 shares by Fort Wayne National Bank. **Underwriters**—Maynard H. Murch & Co. and Lee Higginson Corp., Chicago. **Price** by amendment. **Proceeds**—To be received by company, together with loans, will be used to reimburse treasury for \$382,035 of expenditures made in 1947 and \$256,000 contemplated expenditures this year and provide additional working capital. **Business**—Department store.

Prospective Offerings

Ashland Oil & Refining Co.

Jan. 10 annual report states company may consider either additional financing or "possibly a consolidation or merger with other independent oil interests."

Baltimore & Ohio RR. (1/26)

Company is inviting bids to be opened Jan. 26 for the sale of \$4,000,000 equipment trust certificates to be dated Feb. 1, 1949. The certificates will be designated as series X and will mature in 10 equal instalments of \$400,000 each, on Feb. 1, 1949-58. The certificates will finance not exceeding 80% of the net cost of 1,200 70-ton open top steel hopper cars to be built by the Pullman Standard Car Manufacturing Co.

Central RR. of Pennsylvania

The Central RR. Co. of N. J. and Central RR. of Pa. have asked the ICC for permission to issue \$1,950,000 of Central RR. of Pa. equipment trust certificates to be known as series A. Probable bidders: Halsey, Stuart & Co. Inc.; Harris, Hall & Co. (Inc.).

Chicago, Milwaukee, St. Paul & Pacific RR.

Jan. 12 reported company plans issue of \$4,000,000 equipment trust certificates later this month. **Probable Bidders**—Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Marrs, Hall & Co. (Inc.).

Consolidated Edison Co. of New York, Inc.

Jan. 13 reported company is planning to bring to market early in the spring an issue of \$30,000,000 to \$40,000,000 of mortgage bonds to fund bank loans incurred in its plant construction program. **Probable Bidders**—Morgan Stanley & Co.; Halsey, Stuart & Co. Inc.

Dresser Industries, Inc.

March 15 stockholders will vote on increasing authorized long-term indebtedness from \$7,500,000 to \$12,500,000 company proposes to borrow \$12,500,000 on 3 1/2% notes from Prudential Insurance Co. of America and Massachusetts Mutual Life Ins. Co., using \$7,125,000 to retire like amount of term loan outstanding; adding the balance to general funds to be used for working capital, plant expansion, etc.

Illinois Power Co., Decatur, Ill.

Jan. 13 reported company is preparing to sell at competitive bidding \$15,000,000 new mortgage bonds. Company will use proceeds from sale of bonds to pay \$2,000,000 loan arranged with the Guaranty Trust Co. of New York and for financing extensive property expansion program. Investment banking groups preparing to enter competition for the issue include: Halsey, Stuart & Co. Inc.; the First Boston Corp.; Harriman, Ripley & Co., Inc., and Glore, Forgan & Co. (jointly), and White, Weld & Co.

Pacific Telephone & Telegraph Co. (3/16)

Company has filed with the California P. U. Commission application for authority to sell \$75,000,000 30-year debentures. The money will be used to retire loans from American Telephone & Telegraph Co. **Probable Bidders**—Morgan Stanley & Co., Halsey, Stuart & Co. Inc. Expected that bids will be opened about March 16.

St. Louis-San Francisco Ry. (1/19)

Company has issued an invitation



NSTA Notes

BOND TRADERS CLUB OF CHICAGO

The Bond Traders Club of Chicago will hold its annual midwinter party, February 3 at the Hotel La Salle. Cocktails are from 6:15 to 7:15 and dinner at 7:30 p.m.

CINCINNATI STOCK AND BOND CLUB

At a meeting held January 7 the following officers and trustees were elected for the year 1948 to the Cincinnati Stock and Bond Club:



J. E. Bennett



James E. Madigan



George Eustis



Lloyd W. Shepler



Robt. W. Thornburgh

President: Jean E. Bennett, J. E. Bennett & Co.
First Vice-President: James E. Madigan, J. E. Madigan & Co.
Second Vice-President: George Eustis, Geo. Eustis & Co.
Secretary: Robert W. Thornburgh, W. C. Thornburgh & Co.
Treasurer: Lloyd W. Shepler, Merrill Lynch, Pierce, Fenner & Beane.

Trustees: George T. Grady, John E. Joseph & Co.; Thomas J. Hughes, Edward Brockhaus & Co.; Robert S. Ispahoding, Van Lahr Doll & Ispahoding; Frederic F. Latscha, Frederic Latscha & Co.; Franklin O. Loveland, Field Richards & Co., and Neil Ransick, Chas. A. Hinsch & Co.

The officers were selected from a group elected at the Christmas party held December 15 at the Hotel Sinton. The party was attended by one of the largest turnouts in the Club's history including representative groups from out-of-town affiliates headed by Victor Moseley, Stroud & Co., Inc., Philadelphia, President of the National Security Traders Association.

NATIONAL SECURITY TRADERS ASSOCIATION

An unusually large attendance is expected at the meeting of the National Committee of the National Security Traders Association to be held in Chicago, February 4, at which time changes in the constitution and other important business will be under discussion.

NSTA TRI-CITY DINNERS ANNOUNCED

The annual winter dinners of the Bond Traders Club of Chicago, the Bond Traders Club of Kansas City, and the Security Traders Club of St. Louis will be held February 3-February 6, in connection with the meeting of the National Committee of the National Security Traders Association in Chicago.

The Chicago dinner will be held February 3 at the Hotel La Salle. Arrangements should be made through C. J. Newpart, Merrill Lynch, Pierce, Fenner & Beane, 141 West Jackson Boulevard, Chicago, by those planning to attend.

The Kansas City dinner will be held at the Muehlebach Hotel on February 5. John Latshaw, Harris, Upham & Company, 912 Baltimore Avenue, Kansas City, is in charge of arrangements.

The St. Louis dinner will be held on February 6 at the Chase Hotel and reservations should be made through Norman E. Heitner, Blewer, Heitner & Glynn, 320 North Fourth Street, St. Louis.

The fee for each dinner is ten dollars.

Special Cars Will Leave Chicago for Kansas City

Wednesday, Feb. 4, 1948

Lv	Chicago	Milw.	RR	Wed.	Feb. 4, 1948	6:25 p.m.
Ar	Kansas City	Milw.	RR	Thurs.	Feb. 5, 1948	7:30 a.m.
Lv	Kansas City	Wabash	RR	Thurs.	Feb. 5, 1948	11:55 p.m.
Ar	St. Louis	Wabash	RR	Fri.	Feb. 6, 1948	7:30 a.m.
Lv	St. Louis	Wabash	RR	Sat.	Feb. 7, 1948	12:00 noon
Ar	Chicago	Wabash	RR	Sat.	Feb. 7, 1948	5:40 p.m.

The cost of round trip railroad fare and Pullman accommodations, dinner leaving Chicago Wednesday night and guest fees at Kansas City and St. Louis will be:

Two in bedroom, each----- \$67.81
Two in compartment, each----- 71.23
Two in drawing-room, each----- 74.76

For Pullman reservations and additional information, communicate with: Edward H. Welch, Sincere & Company, 231 So. LaSalle St., Chicago 4, Illinois.

Sees N. Y. Building Conditions Stabilized

Myron L. Matthews praises workers and building employers for agreeing on wage contract for next 2½ years. Gives details of new agreement.

New York building trades employers and labor have set a new high in their already noteworthy public-spirited service to the people of this area by freezing wages of building trades labor at approximately 1947 levels for the next two and one-half years, or until June 30, 1950.

Myron L. Matthews reports in the current Dow Service Daily Building Reports. The new agreement is by and between the members of the Building Trades Employers Association of New York and the Building and Construction

Trades Council of Greater New York and other labor and employer groups not members of the above—all cooperating so that such a great industry-wide achievement could be reached. To appraise the noteworthiness of such an outstanding decision one need only review their own personal income status and publicly declare their willingness to stay fixed at that point for the next 30 months come what may. Furthermore, the usual cost-of-living reopening clause to be found in most wage agreements, while in the new agreement now effective (Jan. 1), cannot become operable until April, 1949, and only then if the Bureau of Labor Statistics cost-of-living index for April, 1949 is more than 15% above the January, 1948, index. Under this circumstance an increase in the hourly wage for the last 12 months of the present agreement would be given effective July 1, 1949, in an amount equal to one-half of the percentage increase above 15% multiplied by a basic \$3.00 an hour wage.

Thus, says Mr. Matthews, the building trades worker in New York City, at least, has set as fine an example of national statesmanship as has been seen or heard of hereabout for a long time and one which brethren in other places would do well to emulate (copy, in a plain word). From the labor-management viewpoint this contribution on the part of labor to rebirth of public confidence in the building industry merits the immediate release of untold hundreds of millions of dollars worth of postponed construction projects by justifiably jittery investors who balked at giving builders what amounted to blank checks on their bank accounts under conditions heretofore prevailing since the war's end. Builders couldn't help themselves in refusing to issue to investors firm overall cost commitments when they didn't know themselves what the job would cost in the face of fluctuating labor and material costs. Now the extremely important labor item has been fixed and defined for a long enough period ahead to remove this as a factor in a builder's unwillingness to make lump sum bids on projects of the type lending themselves traditionally to lump sum bidding.

The material and equipment component of cost is still unanchored and is probably unanchorable not because local supply dealers are not of a public-spirited mind but because they cannot control the manufacturer's wholesale prices which is believed to be about all they have passed on to consumers since the old OPA days. Material costs do not move up or down in unison within a short period of time as labor's wages have frequently done in the past and therefore there is considerable conviction in the trade that with the freezing of wages of building trades mechanics by

voluntary agreement, labor-management groups have given the local building industry virtual cost stability in a degree never before attained. Construction estimating will probably never become a precise business. It never has been because of the very nature of the industry. Builders will still have to be good gamblers but the odds against them have been so greatly reduced that it may be said that the new agreement restores sanity to an industry which by force of circumstance has bordered upon insanity. As the saying went "you don't have to be crazy to be a builder but it helps." Now this is a thing of the past.

The cost-of-living clause which local labor has promulgated is worthy of special attention because by its terms Labor agrees to absorb the next 15% increase in living costs if this should occur. It waives its rights to the event as a point for bargaining. Further, says Labor, if living costs go up 25% above today we will expect only a 5% wage increase, or 15 cents an hour more, starting July 1, 1949 and for the ensuing 12 months. In itself such an increase would then push up building costs, a mere 2½ to 3% and under such circumstances no one would have the slightest ground for complaint. Here is an evidence of a Labor contribution to the construction industry which calls for reciprocity from the other parts of the industry—contributions of a character which will freeze other elements of construction cost where they are.

Meanwhile, building costs as to the important labor component are frozen at a level approximately 3½% above the level of last September. This computation is based upon certain calculations made by the Dow Service Real Estate Valuation Calculator using 10 basic barometric trades of the building industry at their old or new levels, as the case may be, for only a few fundamental trades have received Jan. 1 increases or are likely to receive increases in instances still in negotiation to get lined up in and under the new agreement. Are there chances for a slip twixt cup and lip? Always—but not considered probable according to the usually reliable sources.

DIVIDEND NOTICES

COLUMBIA GAS & ELECTRIC CORPORATION

The Board of Directors has declared this day the following regular quarterly dividend:

Common Stock
No. 52, 15¢ per share

payable on February 15, 1948, to holders of record at close of business January 20, 1948.

DALE PARKER
Secretary
January 8, 1948

The First Boston Corporation

One-Hundred and Fifth
Consecutive Quarterly Dividend

A quarterly dividend of 50 cents per share will be paid March 10, 1948 to stockholders of record as of the close of business February 13, 1948, at 3 P.M.

COLUMBIAN CARBON COMPANY

One-Hundred and Fifth
Consecutive Quarterly Dividend

A quarterly dividend of 50 cents per share will be paid March 10, 1948 to stockholders of record as of the close of business February 13, 1948.

GEORGE L. BUBB
Treasurer

The Board of Directors of Wentworth Manufacturing Company

has declared a dividend of twelve and one-half cents (12½¢) per share on the outstanding common stock of the Company, payable on February 20, 1948, to stockholders of record at the close of business February 2, 1948.

Checks will be mailed.

JOHN E. McDERMOTT,
Secretary

LEE RUBBER & TIRE CORPORATION

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OF NEW YORK, INC.
Conshohocken, Pa.

LEE DELUXE TIRES AND TUBES

The Board of Directors has this day declared the regular quarterly dividend of 50c per share on the outstanding capital stock of the Corporation, payable February 2, 1948, to stockholders of record at the close of business January 22, 1948. Books will not be closed.

A. S. POUCHOT
Treasurer

• DIVIDEND NOTICE •

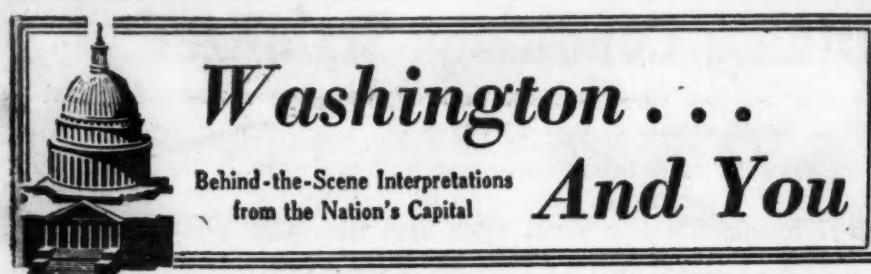
PARK CITY CONSOLIDATED MINES COMPANY

A dividend of two cents per share on the issued and outstanding capital stock of Park City Consolidated Mines Company was declared at a meeting of the Board of Directors, held on December 27, 1947. Said dividend to be payable on February 14, 1948, to the holders of the issued and outstanding capital stock of the Corporation of record, as shown by the books of the Corporation on the twenty-fourth day of January 1948.

EDWARD J. COSTELLO,
Treasurer

THE FIRST BOSTON CORPORATION

THE COMMERCIAL & FINANCIAL CHRONICLE



If any one is looking to the Commerce Department to use the new Republican "anti-inflation" law to make a serious attempt to arrest inflation, he is doomed to disappointment. This law will be used to try to crack a few industry bottlenecks and that is about all.

Commerce Department looked over the field and decided that the industries in which it wanted to break the bottlenecks were steel, agricultural and oil machinery, some chemicals including soda ash, clothing, and possibly fertilizers. There is no word as yet as to what the Interior and Agricultural Departments will do with their pieces of jurisdiction over the "voluntary" program.

Steel will be the guinea pig for the Commerce Department's operation of the "voluntary" program. How industry cooperation works in steel allocations probably will set the tempo and modus operandi for the other industries. Agricultural and oil machinery are expected to follow closely after steel, if the plans mature.

Procedure for operating voluntary allocations will be as follows: The industry's representatives meet with the Commerce Department officials. They submit a broad picture of their industry's supply problems. They tell how much they are producing and to what uses it goes, including details of what shortages are most acute. Then the Commerce Department appoints an industry advisory committee and a separate labor advisory committee. From the industry the department gets the name of an individual nominated by that industry to run the show for that particular industry's program of voluntary cooperation.

Thereafter, the Commerce Department works up a proposed program it would like to put across with the industry. This goes to John C. Virden, director of the department's "Office of Industry Cooperation," the agency in immediate charge. Virden and his boys are supposed to "wring the water" out of the department's tentative program. Then Virden bundles up his revised proposed program and hands it on to industry. Industry chews it over and comes up with its ideas. When the industry and Government have got together on a program of voluntary allocations, the thing is submitted to public hearings. Presumably if the howls are too loud on this or that point, the program is altered.

In final form it is then submitted to the steel industry or the machinery industry or what have you, for putting into operation.

And the Attorney General is supposed to keep his bright young boys working right along with Commerce from the beginning to the fruition of an industry cooperation program. Then—just maybe—the Justice Department will be prepared to give forth quickly with its "declaratory judgment" that the

program does not violate the anti-trust laws and secure industrial leaders against getting hung some years later on the front pages of the newspapers for their Government-sponsored actions.

To industry's spokesmen here, this scope and procedure makes sense, or at least it avoids nonsense. They don't see how a flock of industry cooperation programs could be put into operation over night, or how these programs could slay the high cost of living even if they were possible of achievement. The breaking of bottlenecks they see as a more tenable objective even if this objective may not work out.

This "voluntary cooperation" program, however, was conceived in politics. It was intended to show that industry by concerted action voluntarily could arrest the rise in the cost of living, if not bring down that cost somehow. The program will not do this. Therefore, all parties in interest are on notice that if President Truman wants to, come the full tide of the election campaign, he can say, in some such words: "I wanted to have controls to stop inflation. The Congress would not give them to me. They said industry voluntarily would do the job itself. It has failed."

There is room in the Truman budget of earlier this week for income tax reduction. That is the way this budget is being interpreted by the sponsors of lower taxes. On the basis of all the foreign aid the President wants, the budgetary surplus next year would amount to nearly \$7.5 billion.

Included in the budget is \$400 million for universal military training, which probably will not be enacted. There are also some other substantial contingent items and increases. There is little present expectation that all the \$6.8 billion will be appropriated, as the President asks, for the first 15 months of long-term foreign aid. All in all, it looks, off the cuff, like a cut of almost \$2.7 billion can be effectuated within the realm of practical politics. This would bring the expenditures down to \$37 billion. (Incidentally, except for some notable exceptions, the President did some substantial trimming in parts of the budget.)

Congressional leaders probably also will quarrel with revenue estimates. They think that the revised \$45.2 billion revenue estimate for the present year is low by \$1 billion, maybe more. And

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if they are right, the estimated revenues of \$44.5 billion for fiscal 1949, on the basis of present tax laws, also is low.

So they see ample leeway to enact a minimum of \$4 billion to achieve tax reduction, and still leave at least \$2 billion over for debt retirement—quite possibly a great deal more.

John W. Snyder, Secretary of the Treasury, incidentally was a most surprised and unhappy gentleman when apprised by the White House of this notion of cutting \$40 out of everybody's tax liability and hanging the cost on to business. Mr. Truman quarter-backed this the same way as the "anti-inflation" program of the special session—without consulting his principal adviser on fiscal matters in advance.

One of the reasons why Democratic Congressmen were disappointed with the "State of the Union" message was that it failed to come up with a practical program of legislation. It is OK, they feel, for Mr. Truman to utter a prayer for re-election and Utopia. The time for that is an election campaign, and the place is not in an opening message to Congress. Democrats are in the dark as to what they will stand or fall upon for the present session of Congress. So far the President seems to stand for expanded social security, aid to education, and the like. But is the main issue to be that Republi-

cans enacted a tax cut or that Republicans in Congress failed to enact a ten-point inflation control program? The Democrats are wondering. As for the \$40 per head tax cut handout, that tasted to all flatter than last evening's unconsumed drink.

One of the tenants of the Export-Import bank HAS been that the proceeds of the loan shall be used to purchase those items which will aid in the future liquidation of the loan. The \$300 million Canadian commitment hardly falls in this category. Canada will get the U. S. dollars within the five-year term of the loan, to repay the loan, IF the United States buys enough Canadian merchandise to wipe out most of the Dominion's U. S. dollar deficiency.

If not, then the repayment will depend upon Canada's capacity to strain and strive and improvise and pay it out some way. It is thus a "faith" loan. On this point few officials will quarrel. Two things operate in this picture. One is a deep-rooted national objection in Canada to being in debt to the United States. The other is the past record of Canada, which has been exemplary in the matter of repayment, even to the Dominion taking over and servicing local debts of its municipalities in default on U. S. dollar obligations.

And if the United States starts buying soon enough and in sufficient quantity for foreign aid, a

great deal of the \$300 million will not be taken down.

William McChesney Martin is expected to be one of the most powerful influences for the Truman-Marshall concept of foreign aid with Congress. In the main, Mr. Martin, the President of the Export-Import Bank, has gone over to the Administration side. He believes that the foreign policy objectives of foreign aid are of greater weight than the purely financial prospects of repayment of loans. He believes that only the State Department should administer the plan—or at least should dominate the Administration. He believes that European currency readjustment will follow from the correct steps to bolster Europe's economy. Hence he does not go along with those elements in Congress who want currency readjustment high on the agenda.

Hitherto the E-I Bank had stood steadfast for its particular sphere of operations. It was interested only in making the kind of repayable, export-financing loans which in themselves created the means of repayment. The conversion of Mr. Martin was associated with a trip of nearly three months duration he made to Europe.

Mr. Martin is expected to be an effective influence because he talks more in the language of Congress than of the foreign office. Also he has healthy doubts about the economics of some things, and his line will go over better in Congress than the salesmanship of some other advocates of foreign aid.

As the railroad industry and the government raise the projected freight car building goal to 14,000 a month, there is now every expectation that the earlier goal of 10,000 cars will be achieved this month.

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